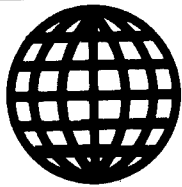


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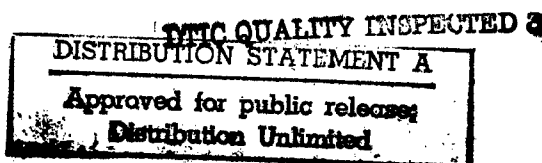
**FOREIGN  
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# ***JPRS Report***

# **China**

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# China

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## GENERAL

### **Dalai Lama Says Leaders Responding to Western Pressure**

*AU1506172190 Paris AFP in English 1639 GMT  
15 Jun 90*

[Text] Copenhagen, June 15 (AFP)—The Dalai Lama, spiritual leader of some two million Tibetans, said here Friday that Chinese leaders were sensitive to appeals and pressure from the West, or they would not have lifted the state of emergency after last year's crackdown on pro-democracy demonstrators. The state of emergency was only lifted because of pressure from the West, he said.

The Dalai Lama who has been living in Indian exile since 1959 arrived here earlier after a visit to Sweden.

Restrictions still abound in Beijing and some officials favour a reintroduction of the state of emergency, he said. The Dalai Lama said little progress had been made since last year in contacts at the Chinese Embassy in New Delhi to solve dispute over Tibet, which is under Chinese rule. A state of emergency in Tibet also was lifted June 1, but the Dalai Lama said that according to Tibetan refugees soldiers there were wearing police uniforms and police were operating in plainclothes.

The Dalai Lama said two Tibetans were publicly executed by the Chinese on May 18 that and 37 others had been charged with subversion.

### **France, Canada Oppose NATO Expansion Into Asia**

*OW2106011490 Beijing XINHUA in English  
2333 GMT 20 Jun 90*

[Text] Brussels, June 20 (XINHUA)—NATO and Japan Tuesday expressed their desire to expand their security cooperation in the light of the changes in the world pattern, according to reports reaching here today.

At a two-day meeting on "Global Security: Interdependence of North America, Europe and Japan in the 1990's," the participants, including NATO Secretary General Manfred Woerner and senior officials from NATO countries and Japan, discussed the perceived Soviet military threat in Asia and possible closer cooperation between Japan and Western countries on security questions.

"This partnership is now becoming more vital, more substantive," Woerner said at the meeting held in Knokke-Heist, Belgium.

He said the 16-nation NATO was looking at new threats to peace and security, adding that NATO would look beyond Europe to deal with those threats and Japan would have an important role to play.

The Japanese delegation led by Deputy Foreign Minister Hisashi Owada, taking part officially for the first time in the meeting of this kind with NATO countries, expressed

new interest in developing full trilateral relationship with the United States and Western Europe.

Japanese officials said they want to find common ground on future security cooperation and not be left isolated by any new trans-Atlantic political pact. U.S. Under Secretary of Defense for Policy Paul Wolfowitz told the meeting that the Western world and Japan must join forces to safeguard their security.

Participants from the United States and most European countries are interested in closer military cooperation with Tokyo in order to tap Japanese economy and technology as Western military spending declines.

But France boycotted the Knokke meeting, saying NATO was violating its charter by seeking to expand its area of operations into Asia.

Canadian ambassador to NATO, Gordon Smith, opposed the extension of the alliance to Asia, describing such prospect as "dangerous."

## UNITED STATES

### **Launch of U.S. 'Military Spy Satellite' Cited**

*OW0806200390 Beijing XINHUA in English  
1520 GMT 8 Jun 90*

[Text] Washington, June 8 (XINHUA)—A U.S. shuttle-class Air Force Titan rocket boosted a military spy satellite into space early morning today.

The rocket was launched at 1:22 A.M. from Cape Canaveral Air Force station. But Air Force refused to discuss or even acknowledge the flight until about 20 minutes later. So the payload was not disclosed.

Sources said that the rocket was carrying an electronic signals intelligence satellite, designed to intercept data from Soviet rocket tests and to eavesdrop on other forms of communications.

The rocket was launched on a sharply northeasterly trajectory toward an orbit inclined 52 degrees to the equator, according to an Air Force statement.

### **U.S. Company To Expand Role in Mideast Arms Market**

*OW1206134390 Beijing XINHUA in English  
1503 GMT 11 Jun 90*

[Text] Cairo, June 11 (XINHUA)—A senior executive of the U.S. military industry said today that American arms manufacturers would "compete more effectively" for arms sales in the Middle East.

John F. McDonnell, chairman and chief executive officer of McDonnell Douglas, a major American manufacturer of military and civilian aircraft, made the statement at the end of a visit to the United Arab Emirates (UAE).

"McDonnell Douglas plans to refurbish its image in the Gulf and Middle East, and compete effectively for a good slice of the aircraft market from now on," reports from Abu Dhabi quoted McDonnell as saying.

The UAE was the last leg of McDonnell's Middle East tour that has also taken him to Saudi Arabia, Bahrain and Kuwait.

McDonnell said the Middle East is the only region in the world where the import of arms remains high despite a worldwide drop in such purchases.

The American corporation will deliver 12 F-15 "Eagle" fighter jets to Saudi Arabia in the next two years to boost its air defense capabilities, McDonnell said. The United States has already delivered 62 of these aircraft to the kingdom.

According to McDonnell, Kuwait has ordered 40 U.S. F-18 "Hornet" multirole tactical aircraft which will start arriving there next year.

The American corporation will soon set up a service and maintenance center for the F-18 planes in Kuwait, similar to that established in Saudi Arabia for the F-15's, McDonnell said.

McDonnell also said his corporation would become active not only in the sales of defense aircraft but also in the sales of civilian aircraft to the Middle East.

He said his corporation's civilian aircraft MD-11 has "great potential" on the Gulf market.

"For many years now, McDonnell Douglas has been a force to reckon with in the Gulf region only for its defense aircraft, with Saudi Arabia and Kuwait being major buyers," McDonnell said.

"We want to change all that and become active in marketing our (civilian) aircraft," he added.

### **U.S. Continues SDI Research 'Despite Uncertainties'**

*OW1406104290 Beijing XINHUA in English  
0038 GMT 14 Jun 90*

[Text] Washington, June 13 (XINHUA)—Despite uncertainties about the ultimate shape of the system, or whether it will be deployed at all, U.S. research into the development of a shield against nuclear missiles continues nearly unabated.

According to the July issue of *POPULAR MECHANICS*, the latest plan for the earliest operational form of the system, called Phase 1, includes one set of satellites to pick up and track missiles immediately after launch, another to follow them through space, and a ground-based sensing rocket that would be launched to follow the course of incoming warheads in the event of an attack.

Interception of the missiles would be carried out by an orbiting flock of self-propelled space bullets called brilliant pebbles and in the terminal phase by ground-launched rockets.

Although this scheme is drastically scaled back from the original one proposed by President Ronald Reagan in 1983, an aggressive testing program is still being pursued, as technology begins to move from the drawing board to early prototypes.

In January, the first test firing was carried out to prove components of the high endo atmospheric defense interceptor (HEDI). HEDI rockets will form the final layer of the multitiered space shield.

A few weeks later, two satellites were launched from Cape Canaveral. Targeted by a ground-based laser, these satellites will help determine the feasibility of redirecting the beams toward missiles with mirrors.

Most recently, a layer radar based near Boston was used to track a decoy warhead deployed from a sounding rocket. Even as SDI research continues, however, resistance to it is growing in U.S. Congress. And it's anybody's guess whether the program will survive until 1992, when President George Bush is scheduled to decide whether to go ahead with full-scale deployment, the magazine said.

### **U.S. Businesses 'Strongly' Oppose MFN Withdrawal**

*HK2206004890 Beijing CHINA DAILY in English  
22 Jun 90 p 2*

[By our correspondent Rosie Wu]

[Text] New York—The American Association of Exporters and Importers (AAEI) on Tuesday testified at the U.S. House of Representatives, strongly opposing withdrawal of Most Favoured Nation (MFN) treatment from China.

AAEI is a national organization comprising 1,200 U.S. export and import companies in the fields of chemicals, electronics, textiles and clothing, machinery, footwear, food, toys and specialty items.

Representing about 50 percent of imports and exports in the United States, AAEI members include companies serving the international trade community, such as customhouse brokers, freight forwarders, banks, attorneys and insurance firms and carriers.

AAEI spokesman Fermin Cuza said on Tuesday that removing MFN status for China would seriously damage many U.S. firms dependent on that trade.

"As recently pointed out by President Bush, China supplies about one third of U.S. toy consumption, 9 percent of footwear, 13 percent of imported clothing and a rapidly increasing volume of electronic products," said Cuza.

"Without MFN status, duties on 1989 imports from China would have been an extra \$4 billion. This additional \$4 billion cost would, first and foremost, result in substantial out-of-pocket losses for the U.S. importers and retailers and price increases for the lowest-income consumers and chaos in the international market place."

Cuza noted that in the longer term, the cost of delays, lost time and unavailability of alternative supply could be even more damaging to small business than the immediate duty increases.

Cuza stressed that China also represented a significant and very promising market for U.S. exporters, with over \$6 billion worth of American goods purchased by the Chinese last year.

U.S. wheat exports to China alone are valued at over \$1 billion.

Further unilateral U.S. action against China would certainly prove fatal to U.S. exports to China, Cuza said.

"Not only would we lose the \$6 billion in trade, but loss of the Chinese market would be a significant psychological blow to some of our most competitive industries—agriculture, aircraft and chemicals."

## SOVIET UNION

### Soviets Feel 'Forced' To Continue Nuke Tests

OW1706005790 Beijing XINHUA in English  
0113 GMT 16 Jun 90

[Text] Moscow, June 15 (XINHUA)—Considering the United States continues to improve its nuclear potentials, the Soviet Union is forced to conduct more nuclear tests, the Soviet Defense Ministry said today.

According to the Soviet news agency TASS, Sergei Zelentsov, an official of the Soviet Defense Ministry, said the new underground nuclear explosion in the U.S. Nevada nuclear test site Wednesday shows Washington is continuing to improve its nuclear potentials.

On the other hand, the Soviet Union has not conducted any nuclear test since November 1989, Zelentsov said.

Such problems as a complete ban on nuclear tests should be resolved according to the principle of rational adequate defense of the Soviet Union and the United States, he said.

Therefore, the Soviet Union is forced to continue its nuclear tests.

### Russian Federation Communist Party Formation Noted

OW2106060090 Beijing XINHUA in English  
0123 GMT 21 Jun 90

[Text] Moscow, June 20 (XINHUA)—The Communist Party of the Russian Federation was founded here today.

The decision to create the Communist Party of the Russian Federation was approved at the founding congress of the Russian Communist Party, which was transformed from the Russian Communist Party conference today.

Participants in the congress announced that they regarded the Communist Party of the Russian Federation as an "inseparable part of the Soviet Communist Party."

The newly-created Communist Party of the Russian Federation is the largest party among the communist parties of the 15 republics in the Soviet Union. Its members account for some 60 percent of the Soviet Communist Party's membership.

The Russian Federation was the only republic in the Soviet Union without its own communist party. The original Russian Communist Party was merged into the Soviet Communist Party in 1925. Since then, regional party committees were under the direct leadership of the Central Committee of the Soviet Communist Party.

The Communist Party of the Russian Federation was created on the increasing demands among the Russian communists to found their own party.

## NEAR EAST/SOUTH ASIA

### Likud-Labor Fight Hinders Middle East Peace Process

90CM0181A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 8, 16 Apr 90 pp 10-11

[Article by Chuan Guang (0278 1684): "The Battle Between Israel's Two Major Parties in Connection With the 'Baker Plan'"]

[Text] Repeated frictions have gripped Israel's coalition government in the past few months. Recently, the cabinet's two major parties—Likud and the Labor Party—have been seriously split over the "Baker plan," a U.S. proposal for peace in the Middle East. Prime Minister Yitzhak Shamir, the Likud leader, on 13 March dismissed Deputy Prime Minister and Finance Minister Shimon Peres, leader of the Labor Party. Then, 10 government ministers belonging to the Labor Party resigned together in protest. On 15 March Peres and legislators of the Labor Party and other smaller parties raised a no-confidence motion in the Knesset, successfully dismissing the 15-month-old Shamir-led coalition government with a 60 to 55 vote. Shamir became the first prime minister ousted by the Knesset in Israel's 42 years of history. On 20 March Israel's president Chaim Herzog asked Peres to form a new government in six weeks. If Peres fails to do so, then Shamir can form a cabinet again. If they both fail, then a snap poll has to be called.

The coalition government has had three cabinet crises in the past year. The first one happened in April last year

when Likud's rightwing faction insisted on adding conditions to a proposal made by Shamir during his visit to the United States on holding elections in occupied territories. The rightwing faction's decision angered the Labor Party, and Peres threatened to pull out of the coalition government. The second crisis occurred at the end of last year when Likud disagreed with Labor on a 10-point proposal made by Egyptian President Hosni Mubarak on settling the Palestinian issue. After the United States proposed the "Baker plan," the two parties still could not come to an agreement on the issue of Palestinian representatives at peace talks. The third crisis erupted early this year when Shamir dismissed the Labor Party minister of science and research, accusing him of having unauthorized contact with the Palestine Liberation Organization. Peres nearly withdrew from the cabinet in protest.

This time, the coalition government could not withstand the crisis triggered by the "Baker plan" and collapsed. It seems that disagreement over the Middle East peace process has increased the gap between Likud and Labor. The conflict between them worsened as they used the Palestinian problem to attack each other.

In fact, the "Baker plan" was a compromised solution in which the United States has made further concessions in order to show its ability to resolve the Middle East problem. The plan called for Israel to negotiate with the PLO and proposed to put into practice Shamir's "election plan" (which sought to elect Palestinians from the occupied West Bank to negotiate with Israel). The plan proposed that a final settlement of the Middle East problem be discussed at a later date. The "Baker plan" also came up with solid suggestions to push for a dialogue between Israel and the Palestinians. After repeated discussions by all concerned, an agreement was reached on the most controversial issue of how the Palestinian delegation should be constituted. Under this agreement, delegation members should include people from the West Bank and Gaza Strip, at least one who has been expelled from the West Bank by Israel, and one East Jerusalem resident who has resident rights in the West Bank. The United States suggested that Israel and the Palestinians limit their negotiations on the election issue, but proposed that the Palestinian side be allowed to raise its opinions on the final settlement of the Middle East problem.

The Labor Party supported the "Baker plan" but Likud refused to accept it. Labor has asked Shamir to make a clear-cut statement on the plan, but Shamir proposed a number of conditions without publicly rejecting it. The major points of contention were on the attitude toward PLO and on whether Palestinians in East Jerusalem should participate in the negotiations. Shamir has demanded that PLO not be represented in the negotiations and that the negotiations not jeopardize Israeli

sovereignty over East Jerusalem. In Shamir's view, the allow Palestinians in East Jerusalem to take part in the negotiations would "cast a shadow on Israeli sovereignty in Jerusalem." Labor also did not want PLO to be involved in the negotiations but had no objection to its playing an indirect role. Labor also insisted on Israeli sovereignty in East Jerusalem, but was willing to accept the presence of a Palestinian from East Jerusalem at the negotiations.

Likud's rightwing bloc has given Shamir a hard time on these two controversial issues. Fearing that Shamir might reach a compromise with the PLO, hardline Trade and Industry Minister Ariel Sharon demanded discussions on details of the Israeli-Palestinian dialogue, triggering a heated argument between him and Shamir. The United States, increasingly impatient with Shamir's stubborn attitude, has been accusing him of being insincere about peace in the Middle East. Peres took the chance to kick Shamir aside and attempted to regain premiership by setting up a "limited cabinet" to replace the coalition government.

A fair solution of the Palestinian problem involves a decision to determine the future of occupied territories, a decision which can be made only through a Israeli-Palestinian dialogue. Thus, a dialogue is essential in the process for peace. In this context, the "Baker plan" is a significant proposal.

The ousting of Shamir underlined the fact that the right wing's attempt to block the dialogue was not welcome. Peres told a newspaper interviewer that the next government would "make a positive response to the Baker plan."

However, the prospect of a Labor-led Cabinet is not bright. To win majority support in the 120-seat Knesset is no easy job for Peres. Labor has 35 seats, while Likud also has 35 since five of its legislators resigned. Peres was rejected by Shamir on an invitation to form the next government, and may encounter further difficulties while asking other parties to help. Over 10 smaller parties are represented in the Israeli parliament, three of them are religious groups having a combined 13 seats. Peres held discussions with leaders of these three parties on 22 March, but ended up winning the support of only one party which has five seats. To make matters worse, Labor is troubled by different opinions within itself.

International media reports have said that the coalition government's collapse was the result of a competition between different political parties. The eventual outcome of this competition will be closely connected with the future of the "Baker plan" and will have an impact on the peace process in the Middle East. Therefore, the world is eagerly watching whether and how the new Israeli cabinet would be formed.

### Proposal To Improve Structure of Leading Groups

90CM0172B Zhengzhou LINGDAO KEXUE  
[LEADERSHIP SCIENCE] in Chinese No 3,  
16 Mar 90 pp 10-11

[Article by Liang Yinxiu (2733 6892 0208) and Lin Jingshun (2151 2529 7311): "Structural Problems of Leading Groups and Countermeasures"]

[Text] Making leading groups structurally scientific is indispensable if such groups are to fulfill their functions as a group. It is also an important part of the construction of leading groups in the new era. In recent years, party and government leading bodies and personnel departments at all levels have conducted much fruitful research to make leading groups structurally scientific. By and large, leading groups at all levels today are structurally sound, but problems of various magnitude do exist, which can be summarized as follows:

1. The age structure is not completely rational. During the organizational reform of 1984, a large number of young and middle-aged cadres were selected for promotion into the ranks of leading groups at all levels in many localities. Thus, cadres of this age bracket became the backbone of the leading groups, which went a long way toward solving the problem at the time of aging leading groups. But what is the age structure really like if you do some actual calculation? As far as the age structure of cadres at the prefectural departmental level and above is concerned, only 7.8 percent are under 45 years old, 46.05 percent are between 46 and 55, 32.19 percent are between 56 and 60, and 13.55 percent are over 61. This kind of age structure, which bulges at the middle and tapers toward the top and bottom also applies to cadres at the county-office level, where young cadres are particularly rare. If this situation continues, over time middle-aged cadres, who now account for more than half the members of leading groups, will grow old and the leading groups will once again face an aging problem. Given the natural law of the new superseding the old, large numbers of cadres will be retiring from the leading groups at the same time, making it necessary to promote new cadres en masse, which is abnormal. Cyclical mass promotions and mass retirements will inevitably have a major unsettling effect on the corps of cadres, which militates against maintaining work continuity.

2. Mismatch between the expertise of cadres and what is needed. A few years ago, some comrades had a one-sided understanding of the goal of the four modernizations and did nothing more than add a few university students to their groups to improve the educational level. No connection was made between the professional cadres' specialties and the needs of economic construction. As a result, the cadres could not put to use what they learned. Right now, there are plenty of cadres at the county (municipal) level who are well versed in industrial and agricultural production, but relatively few cadres are familiar with finance, trade, banking, government, or the law. Many cadres were forced to switch to a different line

of work, learning a new skill on the job, "sharpening one's spear only before going into battle." Some of them soon grew quite comfortable in their new jobs after putting in an effort. Others found that their performance was not up to par even after a long period of practice. This situation wastes qualified personnel, and undercuts the effectiveness of the group as a whole.

3. Psychological mismatch. When we put together a leading group in the past, we were more concerned about assessing the qualities of individuals than discovering the collective qualities of the group, particularly the psychological compatibility between different members. After a group is formed, the conflicting personality traits of its members lead to arguments and clashes in work and social intercourse, creating mutual psychological intolerance between them, which affects the ability of the group to carry out its functions as a whole and prevents the strengths of an individual from being put to use. Today it is common to find leading groups that suffer from varying degrees of internal conflict because of psychological incompatibility among their members.

4. Leading groups tend to be adjusted too frequently. In the past few years, the leading group and leading cadres in some localities have been adjusted too frequently, losing necessary stability. (This is particularly true for county party committee leaders.) This has created a host of conditions unfavorable to the effort to optimize the groups structurally by making use of their own internal mechanisms.

In view of the above problems, which have weakened the drive to make leading groups structurally scientific, we think we should adopt the following appropriate countermeasures:

First, in accordance with a plan, adjust the irrational age structure by reducing the number of cadres in age brackets that are over-represented in the leading groups and by increasing the proportion of outstanding young cadres so that gradually old, middle-aged, and young cadres each make up approximately one-third of the leading groups at the middle and grassroots levels. That way the negative impact of mass retirement and mass entry on the structural optimization of leading groups and the resultant instability can be diminished or eliminated.

Second, in adjusting and reinforcing leading groups, we must be careful to select the best individuals. Even more important, we must take pains to put together the best groups. On the one hand, we must consider the age structure and knowledge mix of the members. On the other hand, we must decide whether they are psychologically compatible with one another. Organization and personnel departments should regularly assess the overall conditions and development trends of leading groups from a broad perspective. What is the situation now? In three to five years' time? They should always have a ready answer to these questions so that they can

make the right countermeasures at any time and keep leading groups in an optimal state constantly.

Third, maintain a degree of stability in the midst of a dynamic state. The law of development of things determines that the structural optimization of a leading group be a dynamic process. Such optimization is qualified and relative. When the structure becomes irrational, adjustment is justified. When practice proves that a particular leading group is structurally rational and works optimally, it should be kept relatively stable because the stability of the leading circle is a basic guarantee of the success of the party's cause. Temporally and spatially, the adjustment of cadres must be consistent with the laws of economic construction. Apart from a few individual comrades, the end of each five-year plan by and large seems to be an appropriate time for adjustment as it takes five years to come up with some achievements in one's job. It is particularly true for cadres at the prefectural, county, and municipal levels. That way adjustment is followed by optimization, stability, readjustment, reorganization, and restabilization. In the process the group is able to function collectively in a state of dynamic stability.

Fourth, perfect the self-optimizing mechanisms of leading groups. To make leading groups structurally optimal, we must rely on adjustment by the higher levels. Even more important, however, we must rely on the groups themselves to create their own self-optimizing mechanisms. The principle of this type of self-optimizing mechanisms is democratic centralism. Whether or not a leading group is able to implement democratic centralism correctly is a principal hallmark of its maturity. In the current circumstances, to adhere to democratic centralism is to emphasize the subordination of the individual to the organization, the minority to the majority, the subordinate to the superior, and the whole party to the CPC Central Committee. Leading cadres must master the art of using democratic methods and procedures to handle problems, apply the weapon of criticism and self-criticism to the conduct of a vigorous ideological struggle, establish and perfect the democratic system, and improve their caliber in earnest in an endless effort to enhance the ability of the group to solve its own problems and optimize itself.

#### **Party Image Relies on Local Officials**

90CM0172A Zhengzhou LINGDAO KEXUE  
[LEADERSHIP SCIENCE] in Chinese No 3,  
16 Mar 90 pp 4-5

[Article by Sun Wencheng (1327 2429 4141): "On the Image of County Party Committee Secretary"]

[Text] A leader's image has the power of example. In a county, party members, cadres, and the masses set great store by the image of the county party committee secretary. His image not only determines the appeal of the party committee and its unifying force, but also influences the party's image.

So-called image refers to a person's spiritual outlook as conveyed by his conduct. It is shaped by his inner qualities. It is concrete, vivid, and emotional. Our party is a ruling party. The county party committee secretary of a ruling party can be called a politician and a "professional revolutionary." His image is different from that of the ordinary worker or peasant or that of an entrepreneur, professor, expert, or scholar. It is also different from that of the grassroots cadre or rank-and-file worker of an organ. As the key political leader of a county, the county party committee secretary should first and foremost present the image of a politician, a political leader. Essentially we demand that the secretary master basic Marxist theories and the party's fundamental line, policies, and principles; be equipped with political foresight and a firm political stance; uphold unequivocally the four cardinal principles, reform, and the open policy; and dare to battle with bourgeois liberalization thought and all behavior harmful to the party and the state. He should voluntarily be consistent with the CPC Central Committee politically, ideologically, and in action. He should be able to overcome all sorts of daunting challenges. He should understand the party's construction philosophy and its fine tradition. He must further the party's three major practices—combining theory with reality, keeping in close touch with the masses, and criticizing and self-criticizing—by setting a personal example. He must serve as a model in handling problems impartially, practicing honesty in government, struggling arduously, and complying strictly with party discipline. He must foster the spirit of "creating a new situation from struggle." He must be adept at implementing creatively the principles, policies, and institutions of the CPC Central Committee and the party committee at the higher level in light of the conditions in the county. While he must think in terms of the whole situation, ready to submit himself to centralized command and to carry out unified policies, he must be flexible enough to operate in accordance with the actual conditions and map out a path for reform and development in his county with the spirit of a pioneer and a man of action. He must be broad-minded and magnanimous. He must practice democracy to the full and have the courage to criticize and self-criticize. He must cooperate well and get along properly with comrades inside and outside the party, inside and outside the leading bodies. He should heed different opinions, including those opposite to his own. He must accept a variety of opinions, utilize the strengths of many people, and pool the wisdom of the masses in his work.

Particularly noteworthy is that the county party committee secretary is a model for all party members, cadres, and masses in the county in things ideological and stylistic. In a certain sense, the people pay more attention to the ideological qualities and style of leading cadres. I am sure we all remember Comrade Jiao Yulu [3542 5940 4389], whom the party set up as a model county party committee secretary. According to comrades in Henan, although it has been over 20 years since Comrade Jiao Yulu passed away, his excellent deeds and

lofty image are continually on the lips of the people of Lancao and Henan. Why? Precisely because this outstanding party member and leading cadre embodies the fine ideological style advocated by the party and relied upon by the masses. During the latest unrest, why were a handful of people with ulterior motives able to stir up such a storm in the name of fighting corruption? We must learn a profound lesson from this. Amid reform and the open policy, to be a qualified county party committee secretary, a person must, like Comrade Jiao Yulu, work doubly hard to improve his ideological style and cultivate a good image in the minds of the people with his fine qualities and style. At present, he should make particularly stringent demands on himself in these areas:

1. Abide by the fundamental goal of serving the people wholeheartedly. Comrade Mao Zedong said a long time ago, "The CPC is a party that works for the welfare of the nation and of the people. It has absolutely no private interests of its own." Why "be an official?" To take up an even heavier burden for the revolutionary cause. What is the use of power? To serve the people. In this historic era when the party goes in for reform and follows an open policy, it becomes even more important to enhance the sense of being a ruling party and observing closely the principles of the party. This is because, should a leading cadre be tempted to pursue personal interests under these circumstances, he has more opportunities to do so. So we must remain clear-headed, never allowing petty interests to overwhelm general principles and trading away the power conferred upon us by the people. These days there is a feeling that since China is now in the initial stage of socialism, party members and cadres cannot but consider compensation for their labor. Certainly this view is not totally wrong. Party members and cadres should be properly compensated and rewarded for their work and labor in accordance with government policies. However, party members, particularly leading cadres, should be more politically conscious and belong to a higher ideological realm than the man in the street. The starting point of our work is not to obtain compensation, but to serve the people. When personal interests collide with the people's interests, we are duty-bound to subordinate the former to the latter with no hesitation.

2. Take the lead in preserving the political characteristic of arduous struggle. Arduous struggle is our party's good tradition and political characteristic. A magic weapon that must not be discarded now or in the future, it must be upheld forever. China is an impoverished nation as well as a big country. It will take arduous struggle lasting generations to make it rich and powerful. Comrade Deng Xiaoping said recently, "The more developed our nation is, the more we need to build an enterprise through arduous effort. Besides, encouraging the spirit of building an enterprise through arduous effort would help overcome the current phenomenon of corruption. Ever since the nation was founded we have always advocated the spirit of building an enterprise through arduous effort. Later things got a little better and we pushed high

consumption. Then waste appeared in every sector. Furthermore, because ideological and political work was weak and the legal system was imperfect, all manner of violations of the law and discipline occurred, as did corruption." (From a speech he made while meeting with cadres of army level and above from martial law units in the capital.) These words provide us with much food for thought. Some comrades nowadays think that to develop a commodity economy we need to go in for ostentation and extravagance, wining and dining, and giving presents. Hence the growing and spreading trend toward throwing banquets and extravagance, even corruption. People are most sensitive to this problem and find it most offensive, to the grave detriment of the image of our party members and cadres. If things continue this way, they will certainly pose a grave danger. The masses urgently hope that amid reform and opening to the outside world, the party will continue to share the comforts and hardships of the masses as it did in the past. We should not let them down.

3. Keep in close touch with the masses constantly. "From the masses, to the masses." The fundamental goals of the party determine that we show concern for the hardships of the masses and be one with them. It is also our party's fine tradition. I always wonder why, with all the modern tools at our disposal—the telephone, bicycle, and car—and despite the presence of scores of county-level cadres in the county and the existence of numerous party and government organs, we have not been able to enforce party policies properly all the way to the grassroots level. One very important reason that must be acknowledged is serious bureaucratism. We now immerse ourselves among the masses less and less and have fewer contacts with them. If this continues, we are bound to be more and more removed from them. "Whoever wins the hearts of the people will rule China." For a CPC member, nothing can be more dangerous and frightening than cutting himself off from the masses. Accordingly, leading comrades in the CPC Central Committee recently again emphasized that leading cadres at all levels immerse themselves among the masses and probe deeply into the reality of life. They also demanded in no uncertain terms that cadres take part in production work so as to keep in close touch with the masses. This is profoundly significant.

(The writer is an alternate member of the CPC Central Committee and deputy secretary of the Hunan CPC Committee. This article is an excerpt from a speech titled "How To Be a Good County Party Committee Secretary" delivered at a symposium organized by the Hunan CPC Committee last September. We have added the article title.)

#### **Developments in Policy on Overseas Study**

90CM0164A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 211, 16 Apr 90  
pp 30-32

[Article by Jen Mingyan (0117 2494 3601): "The Politburo Had a Meeting To Discuss the Student Problem—the Latest Direction for China's Overseas Student Policy"]



[Text] According to the most recent information from Beijing, China has again made new adjustments to its overseas student policy. The main point of the new policy is: Anyone who obtains a college degree through government-subsidized education has the obligation to serve the country, and the rule which says a person has to work five years should be strictly followed. Students who are now in their third year or higher as well as postgraduate students cannot leave school and apply to study abroad. Students who are below third year, after they pay back the government subsidy, may apply to go abroad as privately sponsored students. From now on, any one who has a college degree and wishes to go overseas as a privately sponsored student must be examined and verified by the education commission in the province, autonomous region, or municipality of his residence. After he has received approval, he may apply for an exit permit from the Public Security Bureau.

This recent adjustment of the overseas student policy is the largest one since China decided to reform and be open. It is said that the recent policy adjustment was approved by the Politburo of the Central Committee. And the State Education Commission has issued a document entitled "Additional Regulations Related to Persons Who Have a Bachelor's Degree or Higher and Who Want To Apply as Privately Sponsored Overseas Students." These new regulations are already in effect.

Why has China needed to adjust its overseas student policy several times? What is the main reason for the recent adjustment? What will be the effect of the adjustment? These questions deserve our attention.

#### **A Person Has To Work Five Years Before He Can Apply To Study Abroad**

The new regulations explain in detail the number of years a person with a bachelor's degree or higher must work before he can apply to study abroad as a privately sponsored student.

The rule on the number of years of service is: "People who have graduated from any full-time, government-sponsored institution of higher learning and have a degree with a single or double major, people who have finished their postgraduate studies, research students with master's or doctor's degrees, students who are in their fourth year or higher, and graduate students must serve the country for five years. Graduate students and students in their fourth school year or above, even if they leave school before finishing still have to work five years. Students who graduated from a two-year or three-year technical college need serve only two or three years."

#### **People Who Want To Go Abroad as Privately Sponsored Students Have To Refund Their Government Subsidy**

The new rule also says that "full-time government-sponsored students of institutions of higher learning who are in their third year or lower, and full-time, government-sponsored students of colleges for adults, can apply

to go abroad as privately sponsored students after they refund the government their education subsidy." Students who are in their fourth year or above, and graduate students, after paying back the accumulated amount of subsidy during their years of studies, can apply to study abroad as privately sponsored students.

This is the first time China has asked students who want to go abroad as privately sponsored students for a subsidy refund. In 1990, the standard amount of subsidy is: for a technical student, 1,500 yuan a year; university student, 2,500 yuan; master's degree candidate, 4,000 yuan; and doctor's degree candidate, 6,000 yuan.

The "Additional Regulation Related to Persons Who Have a Bachelor's Degree or Higher and Who Want To Apply as Privately Sponsored Overseas Students," a document that was drafted by the State Commission of Education, has a detailed description of how to calculate the amount to be refunded: Based on the present cost of university education, the person who wants to apply as a privately sponsored overseas student can multiply the amount by the number of his years at school, then divide the total by the number of years he is required to work. He will then get the yearly average of money he needs to pay back. If he works one year, he can deduct one year of refund. Nine months of service can be considered as one year. Those who had worked before they went to university or graduate students who are employed can calculate their years of work and deduct this from the amount of refund.

Those who are still in school but want to apply to study abroad as privately sponsored students can refund the government subsidy to their universities. University and technical college graduates pay the schools that they attended. People with master's or doctor's degrees pay the schools they last graduated from.

The new regulation also says: Overseas students "who return to work in the country within eight years, counting from the day of their departure, will be given back all the money they paid."

#### **Six Kinds of People Will Be Privileged**

There are six kinds of people will have the privilege of being exempt from having to pay back the subsidy or having to work the required number of years. The new regulation says: The direct relatives (including their spouses, children, grandchildren, and their spouses who are residing in the country) of returned Overseas Chinese, Overseas Chinese living in foreign countries, residents of Hong Kong, Macao, and Taiwan, and Chinese of foreign nationalities; and indirect relatives (brothers and sisters and their spouses) who are full-time, government-sponsored students or graduate students from institutions of higher learning, or who have been students but have left school before finishing—if any in these categories want to apply to go overseas as privately sponsored students, they must present a copy of valid documents which show the domestic or foreign residency of their sponsors as well as proof that these



relatives will be financially responsible for the applicants. The documents will be examined and verified by the Department for Overseas Chinese Affairs or Department for Taiwan Affairs in the applicant's home province, autonomous region, or municipality. The direct relatives of these six kinds of people do not have to pay for the subsidy they have received before going overseas. Indirect relatives can apply to go overseas only after they pay their fees. Direct relatives are exempt from the five years of service. Indirect relatives are exempt from service only after they repay the subsidy.

#### **The Education Commission at the Provincial Level Is Responsible for Examining and Verifying Student Applications**

The newly adjusted policy says that people who apply to study overseas as privately sponsored students must obtain approval from their units and show documents proving that they have paid back their subsidy or have worked the years required. They then present their papers for examination and verification to the Education Commission at the province, autonomous region, or municipality where they reside. Those who fulfill the requirements will be given permission to apply for exit permits at the public security office.

#### **The Standing Committee of the Politburo Discussed the Issue of Overseas Students**

A well-informed source revealed that the above-mentioned new regulation was the topic of discussion at a meeting of the Standing Committee of the CPC Politburo, and that the regulation was generally approved. The meeting was convened on 18 December 1989, by the general party secretary, Jiang Zemin. This was the first time since the founding of Communist China that the Politburo has held a special meeting to discuss the overseas student problem. That shows how important the issue is to the Communist Party.

It was reported that at the meeting everyone agreed that the results of the work dealing with overseas students during the last decade have been positive. But there are also many outstanding problems.

**Problem One:** Some party members have not been alert enough to notice that Western countries have been trying to influence the political ideology of Chinese students and carry out a strategy of "peaceful evolution." These party members do not understand the seriousness, complexity, and long-term effects on these Chinese students of the struggle between Western countries and China; they also ignore political qualities when they select students to go overseas.

This is the problem that worries Communist China the most. On 9 March, XINHUA SHE reported the speech that General Party Secretary Jiang Zemin gave to students returned from overseas. He said, "Some international reactionary powers have now realized that war cannot solve problems, so they need to use the method of peaceful evolution to influence socialist countries. This

is something we must pay attention to." Jiang Zemin asked these returned students to be patriotic and be aware of peaceful evolution.

During the time before or after the "4 June" incident, quite a few overseas students in many ways were involved in antigovernment demonstrations, meetings, and marches. Right now a number of these students still have not changed their political attitude. High-ranking Chinese officials think that this is the result of "peaceful evolution" by the West.

**Problem Two:** Recently, the various channels through which students are sent overseas have proliferated so as to be very confusing. The work of selecting students is being compulsively carried out. Before students are selected there is no plan as to what job assignment they might have when they come back.

**Problem Three:** Because of the attraction of material benefits, more and more students have the tendency to remain overseas. The number of students asking to prolong their stay has increased.

These three problems are the major reasons the Communist Party adjusted its overseas student policy. People from education circles, however, say that there are differences of opinion on how to solve these problems, and most of these differences are related to the first problem, that is, "peaceful evolution."

#### **Over 10,000 Students Were Sent During the Last Decade**

A review of the history of Chinese students going overseas will help us understand why China adjusted its policy several times.

When Communist China was first founded, there were basically no students sent to study in the West. The office that dealt with overseas students was mainly for attracting students to come back and help build the country. From 1949 to the end of 1956 about 1,700 students and intellectuals returned from the West to serve the nation. In 1956, China wanted to be advanced in science, and the central government realized that the country was hindered by the shortage of talent. The Chinese Government hoped to attract the 7,000 students who were still in the West (5,000 of them in the United States) home. Then, however, the antirightist movement quickly dampened hope that these students would return.

During the 1950's and the 1960's, before the relations between China and the USSR turned sour, China sent its students to study mainly in the USSR and Eastern Europe. Present Chinese leaders such as Jiang Zemin, Li Peng, Zou Jiahua, and Li Tieying were among the students sent to the USSR and Eastern Europe from the end of the 1940's to the beginning of the 1950's.

In 1978, the system that allowed students to study abroad was resumed. That year, China sent over 480 students to 28 countries. Compared with the record of

the past two decades, this was the highest number of students being sent in a single year. Following that, the number of students sent abroad increased every year. According to the Chinese Education Press on 22 February 1986, "During the Sixth Five-Year Plan, our country will follow central planning and send 30,500 students to study overseas." The number of students who have gone abroad recently has increased tremendously. On 5 February 1990, BEIJING RIBAO reported that during the last decade of reform, more than 80,000 Chinese students have gone overseas and 30,000 of these have return after studying.

Ever since the country began implementing its open and reform policy, China has declared many times that its overseas student policy would not change. In fact, the general direction of sending students overseas has not changed, but its real content is changing all the time.

#### **The Many Problems Involved in Studying Overseas as Privately Sponsored Students**

In 1979 when the idea of privately sponsored study first appeared in China, the State Council immediately approved: "Going overseas as a privately sponsored student is one way to get training." Until 1985 there were hardly any restrictions against people going abroad as privately sponsored students. At the end of 1984, the State Council had a temporary stipulation about going abroad in this fashion. The stipulation said that going overseas as a private student was one way to produce talent, and it was also a way to implement the open policy and import foreign knowledge. Any Chinese citizens could follow proper legal procedures and apply for a foreign scholarship or foreign financial aid, and obtain university entrance permits. There was no restriction on the applicants' academic standards, age, or number of years of work. Anyone could apply to go as privately sponsored student, to get a college degree, to take postgraduate courses, or just to study for a nondegree program.

Two years later, the above stipulation was changed. On 11 June 1987, the State Education Commission issued new stipulations. It said that "in order to guarantee the working order in our universities and research institutes, employees who want to take leave and go overseas as privately sponsored students must get permission from their work units." The stipulation also said that before going through the application procedure, employees who were going overseas as government-sponsored students had to sign the "agreement on studying abroad" for the unit who had selected them. The content of this agreement described what the state and work units expected the students to do. It stated the aim and subject of the study, the required period of time, and the requirement for returning to work in China. In November 1988, the State Education Commission drafted another document, one that was never revealed to the public. It suggested even stricter control for those who wanted to apply to study overseas as privately sponsored students.

#### **The Number of Students Sent to the West Will Decrease Tremendously**

In 1987 when China adjusted its policy on overseas students, it was obvious that the government meant to "tighten up." The latest policy imposes even "tighter" control. The new regulation makes it more difficult for people to apply to go overseas as privately sponsored students, and fewer students will be sent by the government to study in Western countries. Many students, when they heard about the five years of service and the amount of refund, were greatly disappointed. If a person with a university degree wants to go overseas as a privately sponsored student before he finishes working the required number of years, he will end up paying 12,500 yuan, an astronomical sum for anyone living in China. It is impossible for any family to obtain that much money. In fact, the new regulation just crushes most people's hopes of study overseas.

#### **What Should Be the Next Step?**

There are 50,000 to 60,000 Chinese studying abroad, a small number compared to the 2 million college and postgraduate students in the whole nation. China's continuous adjustment of its overseas student policy was aimed at improving policy, strengthening political power, and benefiting the modernization program. But high-ranking Chinese officials ought to understand that the root of the overseas student problem and the key to a solution lie inside China. If China's political and economic development is unstable, if the nation does not reform its education system, and if the government does not go all the way in improving the political status, working conditions, and living standards of intellectuals, it will be difficult to find a solution to the overseas student problem. In short, the Chinese Government should not have any more restrictive policies. If the government must tighten up, we hope it is only a temporary situation affected by a general political climate. Basically, China needs to have more communication with the outside world, needs to expand its horizons, acquire new technology, and absorb new knowledge. That will bring more reform and openness.

#### **Status of Current Political Leadership**

90CM0165A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 211, 16 Apr 90  
pp 10-13

[Article by Chou Rong (0719 2837): "Deng Xiaoping Makes an All-Round Power Transfer to Jiang Zemin—The New Situation in Beijing Under a Stability-Seeking Policy"]

[Text] Deng Xiaoping Hands Over All Powers to Jiang Zemin

The political conference of the National People's Congress [NPC] closed on 4 April 1990 after successfully preparing the ground for Deng Xiaoping's total retirement and his support for Jiang Zemin.

During the conference, the theme of which was unified thought, coordinated pace, and stability, China made every effort to ensure that future social turbulence would be prevented.

The Tiananmen Square has again become the focal point of attention since April. In reaction to this, the Chinese authorities have kept a close watch on all universities as well as issued a directive to forbid anybody to appear at the square. They also made sure that no untoward incident or statement that could spark trouble would occur at the conference.

#### **The Chinese Communists Firmly Control Military Power**

The National People's Congress on 3 April elected Jiang Zemin as chairman of the Central Military Commission, with 2,682 votes in favor, 12 votes against (including one vote each favoring Deng Xiaoping and Yang Shangkun) and 26 abstentions. When the chairman of the congress, Wan Li, announced the election result, Jiang did not applaud with the others or rise to express his thanks, because he maintained that this decision did not mean that he personally will have total control of the military, but rather the power will rest firmly in the hand of the party because the decision to elect him was a unified move by members of the party's inner-core policy makers.

But the influence and prestige of Deng's their designate have sharply increased after he took over the control of the party and military.

#### **Jiang Zemin Says "We Can't Afford To Be Soft!"**

During the NPC conference, Jiang said, "The party and Xiaoping want me to be in charge of the Military Commission. I have repeatedly stressed that I am but a primary school student. I have never worked in the military, but I am willing to learn. Fortunately there still are Yang Shangkun, Liu Huaqing, Yang Baibin and other comrades in the commission. Therefore there will be people to teach me. I think the military will have no problem in promoting proletarian dictatorship as long as it has good leadership, high discipline, and the ability to expand on its glorious tradition. Our urgent task is to update science and technology, including the hardware. Recently, since we increased our military budget, people in the West have asked: Haven't you been talking about peace? Why did you increase the military budget? I say our military budget is not much. We have 3 million troops, but our budget is only about \$4 billion; Japan has over \$30 billion for its 30,000 armed guards. Our military budget has been small, so a little increase is only normal. China needs a peaceful environment for its development programs, but we cannot afford to be soft toward any infiltration and attack by international reactionary forces. The tougher we are, the more frightened they will be; the softer we are, the more fierce they will be. I don't mean that Chinese like to fight. I am saying that we can't afford to be soft."

#### **Confine Turbulence in Its Embryonic Stage**

Remarking on memorable days such as "5 April," "4 May," "18 September," "1 October," and "9 December," Jiang Zemin said these were historical days which should be good subjects for education, but instead they have triggered fear of trouble. The NPC conference, he said, would be followed by such commemorative days as 5 April, 15 April, 4 May, and 4 June, which call for the utmost vigilance. He said, "All government and party departments have to be prepared to deal with trouble. If a minority of people attempt to make trouble, including infiltration from abroad, then we have to confine the trouble in its embryonic stage. We cannot be soft in dealing with it."

Before the NPC conference was convened, the media in the West, Hong Kong, and Taiwan had speculated that a transfer of personnel was imminent. In fact, there was no major personnel reshuffling except the change of command in the military commission.

#### **Criteria for Future Personnel Transfer**

The Chinese Communist Party has stressed that politics is safeguarded by organizational effectiveness. And Jiang Zemin emphasized the importance of leadership being in the hand of those loyal to Marxism. He said leading cadres should from now on be selected on the criterion of whether they are good statesmen, not whether they have good connections. Age and cultural achievement should not be the major criteria, he said. Younger and professional people have been chosen to fill vacancies, but the emphasis should now be on the candidates' commitment to revolution. It would be dangerous if the power of control is not in the hands of those dedicated to revolution, he said, adding that knowledge, professionalism, and young age will not suffice if a cadre does not have a revolutionary concept. The right people should be chosen for jobs as well as to be successors, he said.

The Communist Party was supposed to appoint candidates to fill a number of vacancies in the top hierarchy after 4 June. The 17-member Politburo set up during the 13th National People's Congress has seen the death of Hu Yaobang and the dismissals of Zhao Ziyang and Hu Qili. In the Secretariat controlled by Zhao Ziyang, four of its five members have been removed, namely Zhao Ziyang, Hu Qili, Rui Xingwen, and Yen Mingfu, leaving only Qiao Shi in the Secretariat. The party held three plenary sessions in the six months after July 1989. Six Politburo Standing Committee members led by Jiang Zemin replaced five members headed by Zhao Ziyang in the Politburo. The Secretariat recruited Li Ruihuan, Ding Guangen and Yang Baibing as new members. Some vacancies in the Politburo, however, have not been filled. For instance, the position of alternate member left vacant by Ding Guangen has not yet been filled. Furthermore, it is worth watching when Zou Jiahua, a political rising star, will be included in the Politburo.

Elections are due this year for local governments at the county and village levels as well as for party representatives in 12 provinces and special districts. Other positions in central and local units also have to readjusted. Song Ping, a Politburo Standing Committee member in charge of personnel, has said that those who have abused privileges, taken bribes or were corrupt should not be removed from the leadership circle. Leading cadres in the party and government, he said, not only should be creative, knowledgeable, and able to lead, but also should be strong politically, which includes maintaining a firm position, commitment to principles, a strong political sense, and the ability to handle political events.

#### **Personnel Reshuffling Expected in the State Council and Provincial Party Units**

During this NPC session, Premier Li Peng ordered all State Council officials above the ministerial rank to be present at the conference, with absence permitted for those who had to make visits outside of Beijing or overseas for official purposes. However, State Councillor and Minister of Public Security Wong Fang never showed up. Before this, the position of first political commissar of the Armed Police Force, which had been occupied by Wang, had not been retained for him. There has been speculation that he was recuperating in Zhejiang. It now looks like his government positions would be taken up by someone else sooner or later.

As for the elections for 12 provincial and special district party committees, it has been announced that Ho Zongbin would be secretary of Henan provincial committee, replacing Yang Xizong who had been transferred from Sichuan to Henan for the position. As to the issue of including other political parties in the cabinet, it was learned that the Communist Party would select a date for discussions with the opposition after the NPC session, and the choice of candidates would be discussed by the NPC Standing Committee.

#### **Easing Economic Slump, Relaxing Money Market**

Since the economic reform programs were introduced, China has achieved considerable results in adjusting its industrial infrastructure, controlling investment and consumer demand, and reshaping the economic order. But, as Li Peng admitted in an earlier report, the market is in a slump, goods are stockpiling, production is decreasing, and efficiency is dropping. In reaction to these problems, China has decided to relax its control on the money market and provide funds to help state-run enterprises battle difficult times. It also has decided to step in to help state-controlled businesses and retail agencies to buy agricultural by-products. A total of 99.1 billion renminbi was allocated to this effect during the last two months in 1989.

In 1989, the GNP had an increase of 3.9 percent and national income registered a 3.7 percent rise. Taxation for industrial interests rose only by 0.2 percent, the lowest in over 20 years. Total retail sales of commodities dropped by 7.6 percent. Sales of home appliances have

weakened despite a reduction in their prices, and the market for steel, cement, petrochemical products, and cars has slumped. As a result of high interest rates, people have chosen to put their money in the banks, which created a shortage of available funds in the market. Some businesses, including those in the construction and processing fields, have been forced to shut down permanently or temporarily because of a stockpile of goods which could not be sold. This has led to a rise in unemployment. Products which have been sold on credit could not be paid for, creating a problem of debts which have amounted to hundreds of billions of renminbi.

#### **Zou Jiahua and Ye Qing To Ease Debt Problem**

The State Council has set up a special task force, with Zou Jiahua as its chief and Ye Qing as deputy chief, to resolve this debt problem in coordination with the industrial, commercial and financial sectors. Banks have been asked to provide loans to pay for purchases and additional commercial funds have been provided in order to rejuvenate productions.

A new policy has been introduced to encourage people to buy because previous measures suppressing the consumers' demand were deemed wrong. Interest rates for bank loans and deposits were lowered, and a campaign was underway to encourage people to buy local products instead of foreign products in order to protect domestic industry and market. Economist Tao Dayun said that some people say the policy to relax financial control and lower interest rate was adopted because of serious flaws in economic reform programs. This thinking is wrong. Reforms are to sustain, stabilize and stimulate economy, so naturally they have to be aided by tight as well as relaxed control measures. After a year of rectification, Tao Dayun said the economy has improved; the issuing of currency has been restricted, inflation has been under control, investment in fixed assets has been limited, and consumer demand has been brought down. But new problems also have sprung up—sales in the market were not vigorous, the speed of industrial production fell too sharply after a rise, finished products increased in inventory, and there was a shortage of floating capital. Professor Tao maintained that any harsh control policy would not serve to rejuvenate economy at this stage.

#### **Emphasize on Stability in Rural Areas, Promote Agricultural Development**

The newly established production committee under the State Council is responsible for supervising and monitoring the productions, technological advancement and management of all enterprises. Its objective is to achieve economic stability so as to ensure political stability. The Beijing regime, saying that the well-being of China's 800 million peasants is a deciding factor in the country's stability, has increased agricultural spending by 30 percent and is about to introduce a "three-systems, one hand-over" policy to promote agricultural economy. This policy is as follows:

The cooperative funds system, which seeks to have contractors return the money they have borrowed from state funds. The money will "return to the state, be managed by a collective body and be loaned out again under the condition that it be paid back."

The development funds system, under which a peasant who works as a laborer, conducts businesses or engages in other nonagricultural activities outside his village has to contribute one-fourth of his income to his village to help promote the economy in his village.

The accumulative labor system, under which each peasant volunteers once a year to irrigate the paddy fields without pay. The amount of volunteer work is to be decided by each village.

Handing over contracting fees for the use of land. This means that peasants who are contracted to work on state-owned land have to hand in fees to the state every year.

#### State Development Is Key To Growth

The above policy is aimed at limiting personal wealth, increasing public wealth and narrowing the gap between the rich and the poor, so as to prevent any outburst of dissatisfaction among rural areas.

It is estimated that by the end of this century, China will have a population of 1.255 billion people, 500 million tons of grain yield, 1,200 billion watts of generated energy, 80 million tons of steel production. Financial income will be 28 percent of national income, the accumulation rate will be maintained at 30 percent, and economic benefit will be at a level experienced by developed nations in the 1980's.

If these targets can be reached, and if China is internally unified, socially stable, and open to the outside, then Hong Kong people will have greater confidence in China.

#### The Passing of Basic Law Will Increase China's Influence on Hong Kong

Seven years before 1997 arrives, and China's influence on Hong Kong is expanding. The NPC session passed the Hong Kong Basic Law and decided to set up a preparatory committee in 1996, with half of its members from China and the other half from Hong Kong, to oversee the establishment of the Hong Kong Special Administrative Zone. The NPC also decided to form a 400-member nominating committee, to be represented solely by Hong Kong people, which will nominate candidates to form the future Hong Kong government. Some 25 percent of the committee members will come from the financial and commercial sectors, 25 percent from the field of professionals, 25 percent from labor and religious fields, and 25 percent from current Hong Kong politicians and Hong Kong representatives to the National People's Congress.

#### A Crucial Time To Absorb Hong Kong Talents

Talents are needed in addition to the Basic Law. At a time when Britain announces "right of abode" policy, what China does to win the hearts and minds of the Hong Kong people, to absorb talents, to make friends, and to expand its influence, will have a great impact on whether Hong Kong will pass through a peaceful transitional period in the next seven years.

#### Democracy, Socialism, Future Viewed

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in Chinese 12 Jun 90 p 4

["China's Democracy, Socialism and Future—Conversation Between He Xin and French Reporter Sollman"—italics reproduced from source]

[Text] Editor's Note: Recently interviewed by French economist and reporter Sollman, He Xin, a young fellow and researcher at the Chinese Academy of Social Sciences expressed his views on such issues as democracy in China. BEIJING QINGNIAN BAO carried the full text of their conversation on 1, 5, and 8 June. Here we offer our readers published excerpts. [End editor's note]

#### I. Democracy and China

The question of democracy, which people throughout the world are now following with interest, seems to be the only and greatest question in the contemporary era. I have pondered it for a long time. However, I have to note that the question of democracy against the current international political background is neither a simple question of value nor an abstract cultural question. It is precisely a question of a highly political nature. To put it more precisely, *under the current conditions, the banner of democracy has become a means by which states wage a strategic struggle with one another and has gone beyond the framework of the concept of value of a certain country or of its political system.*

The U.S. policy-making groups are concerned about democracy in China. Are they seeking a kind of spiritual value or certain latent strategic interests? If it admits that the question involves motives for interests then, in the final analysis, for whose interests is the U.S. Government working: the Chinese or the United States?

*If we say that the purpose of the U.S. support for the "prodemocracy movements" in the world is to seek a certain kind of spiritual value, that is really something! In the modern world where states are locked in such acute interests competition, can we say that the United States, which is always imbued with a practical spirit, has suddenly become a justice-seeking Robin Hood, utterly devoted to others without any thought of self?*

The world strategic situation at the end of the 20th century is gradually evolving into a very interesting one. Are we moving toward a multipolar or monopolar

world? The Soviet Union is facing a national split and other serious difficulties. If China is also bogged down in division and chaos, what situation will emerge in the world? Will mankind have entered a splendid paradise where "universal democracy" prevails?

Once the vitality of the Soviet Union and China is sapped by chaos and even civil war, and the two countries are split by national division, we should like to ask which other countries in the world are able to combat the United States economically, politically, and militarily? (Is Japan, France, or West Germany able to do so? Still less would the other small, weak, and backward developing countries be able to do so.) Will the United States not then have irrefutably become the master and leader of the world in such areas as economics, politics and even ideology and values? Will it not place itself above all other countries in the world? Will its decrees not become the verbal commands directing the world? Will the world, in the final analysis, become a multipolar, democratic world, or a monopolar world with the United States as the axis? Will the era we are now living in become a new one where universal democracy or a global imperialist structure prevails?

Therefore, if we ponder the question of democracy from the background of world strategic struggle, as I see it, it has obviously gone beyond the pure direction of democracy which the intellectuals are generally pursuing from the higher plane of feelings, values, and ideals.

As an economist, I do not think you will deny that economic and political inequality among states is a harsh reality in the modern world. Not all countries have the same opportunity to move toward prosperity, affluence, and modernization. Neither are all big countries in the world willing to see other countries move toward prosperity and modernization.

*The era we are living in today is no longer that of the French Revolution, full of a romantic spirit. If a country falls into civil war, that will mean self-destruction and a complete loss of the opportunity to get itself involved in international competition. However, perhaps there is no other means that can be used more effectively today than the slogan of "democracy" to destroy a developing country from within? This is because the economical and political conditions of developing countries are not yet ripe and their conditions for and level of democracy are still not high. This being the case, in my opinion, true democracy is lovable but one must note that in current world politics characterized by harsh competition, the banner of democracy has become a power means of waging a strategic struggle in the world community.*

## II. If China Splits

In the last 10 years, the United States has kept trying to instill the idea of American-style democracy into the Chinese.

However, would its political system work if transplanted in China? *If the political system which the United States*

*sells to China is practiced in China, since China and the United States have completely different economic and political foundations, an extremely pro-American "soft" government, weak and lax politically and devoid of national cohesiveness, would emerge in China.*

Would such a "soft" government be able to resolve the various complicated and arduous social problems currently facing China? Could it prevent the country from splitting and avoid civil war? If Xinjiang and Tibet split from China, the country's territory would shrink by one third and most of the population would have to live in the remaining territory in a concentrated way.

Everybody knows, China's coastal areas and hinterland provinces have relatively developed industry, rich labor, advanced technology, comparatively ample funds, and a relatively high cultural and educational level. As far as the needs for economic modernization are concerned, Xinjiang and Tibet are short of human and financial resources and industrially and technologically underdeveloped but they have fairly rich underground and mineral resources. If they are separated from their mother's body of China, Xinjiang and Tibet will lose their passage to the sea and become two isolated and backward inland plates almost completely cut off from the outside world. This will cause a considerable shrinkage in China's domestic market. The country will be short of reserve resources and its economic development will lose room for maneuver and become imbalanced as a result. However, what benefits will Xinjiang and Tibet gain from this? Will their economies develop at an accelerated or slower pace? In fact, a divided China (no matter whether Han nationality regions or minority nationality regions are concerned) will thoroughly lose the last opportunity and hope to catch up with and surpass developed countries.

Therefore, whenever I learn from newspapers that some Western politicians advocate national splittism in China and oppose China's policy of restricting its population in the name of "democracy" and "human rights," I am bewildered—do they actually love or hate the Chinese? In the final analysis, are they concerned about China's development and progress or do they hope that the land of China will crumble at an early date and its people will become destitute and homeless? Is this actually the strategic scheme intentionally devised by some international strategists against China or is it devised out of their political naivety resulting from their excessive concern about values?

## III. Does China Has Any Democratic Tradition?

I have noted that you have twice raised this concept and I am not for it. I have also noted that the question you have just raised implies that China seems to have an inherent autocratic tradition and the democratic tradition seems to be exclusively unique to the West. I am sorry but I cannot agree with you on this point. First of all, when it comes to my feelings, I am unable to accept the theory which regards Western civilization as the

center and also unable to appreciate the sense of superiority which some Westerners have over the Chinese in racial and cultural terms.

I admit that today China is still a backward country. Since we, the Chinese, have a 5,000-year history of brilliant civilization, we need not feel ourselves inferior. Even on the question of democratic tradition in China, we also need not be self-abasing. I note that *as far as Western political theories are concerned, some people say that there should be a distinction between essential [shi zhi 1395 6347] democracy and formal democracy. Making this distinction is better than discussing ordinary democracy in very general terms. Of the Chinese traditions, there have not really been such Western-style forms of democracy as a multiparty system and parliamentary system. However, this does not mean that there has been no democratic thinking in the traditions of Chinese civilization. Nor does it mean that China's ancient politics was completely devoid of any democratic functions.*

Therefore, even though we put aside the numerous expositions advanced by many politicians in past dynasties on the issues of civil rights and democracy (in fact, they were Chinese classic theories on democracy), and the fact that in ancient Chinese politics there were legislative and political systems with Chinese characteristics which embodied the democratic spirit, including the systems of restricting, supervising, and impeaching emperors and officials, I am also unable to agree with the argument that China has only autocratic traditions and no democratic ones.

The Spring and Autumn and Warring States Periods [770-221 BC] were eras of vitality full of democratic spirit. Historians then made accounts of such issues as the decline of imperial power and participation in the administration and discussion of state affairs by recluses and common people. Large batches of intellectuals cherishing ideals of morality and justice were active in the political arena. Without a certain democratic environment at that time, the emergence of the brilliant culture of numerous schools of thinkers in the late Zhou Dynasty and of contention of a hundred schools of thought during the Spring and Autumn and Warring States Periods would be out of the question. This is very obvious. Moreover, during the Han, Tang, Song, Ming, and Qing Dynasties, there were also brilliant periods of social, economic, and cultural development, when the government was honest and clean, knowledge and civilization flourished, and the people lived and worked in peace and contentment.

*Should the fact that in our brilliant historical periods, the Chinese also had the tradition and spirit of advocating democracy be denied just because in the then Chinese system there were no Western-style multiparty democracy and parliamentary democracy (in fact, the embryonic form of party politics under the monarchy could long be found in the ancient Chinese civilization)?*

Of course, I do not mean to say that the ancient Chinese politics has always been democratic and I do not think that the democratic functions of the ancient Chinese politics were perfect or that they are still applicable at present. *What I mean is that the West once had its own model of democratic tradition while China also had its own democratic tradition. Nevertheless, as the trend of thought favoring national cultural nihilism has been in vogue since the 1966 Great Cultural Revolution, China's ancient democratic brilliance and political spirit were almost strangled and buried. This tradition remains to be unearthed and reunderstood.*

#### IV. The Ancient Monarchy Was Not Necessarily Absolutely Autocratic

In recent years, the West has worked hard to recommend the system of "separating the three levels of power" to China. Ancient China did not have any complete theory of this kind. However, after observing the systems of the Ming and Qing Dynasties, I found that it was the joint council of aristocrats and ministers entrusted by the emperor, and not the emperor, who held the legislative and policy-making power. The administrative power was in the hands of the prime minister or defense minister. As for judicial power, in accordance with various statutes and common laws, the Supreme Court (law court) and the Ministry of Justice (procuratorate) tried cases relatively independently with the power in their hands. A court of censors was specially set up to investigate violations of the law by officials and judicial unfairness. Judicial and supervisory organs were independent and accountable directly to the state. The council of ministers, prime minister, and censors had the right to admonish and even impeach the emperor in theory and practice. In most cases, the emperor just practiced etiquette and functions symbolizing authority. This is similar to what some presidents and queens do in modern times (a certain young and inexperienced boy once became emperor and was competent enough to perform the functions of an emperor. This precisely proves that he was in fact a certain political symbol). This system was not "absolutely autocratic" as thought by many because it was characterized by separation and mutual check of powers.

I am not making painstaking efforts to speak in defense of China's ancient monarchical politics but I just want to show that the Greek model of democracy in the West is on no account the absolute standard for weighing how sound democracy is put into practice. Conversely, *in the West, since ancient Greece created the city-state democratic system, some cities in Europe, even in the Middle Ages, preserved this form of political structure but this did not prevent them from experiencing the dark and autocratic Middle Ages. Even the Western theocratic organizations in the Middle Ages assumed the form similar to a parliament to some extent.*



### V. The Development Orientation of Democracy in China

Naturally, I do not think that there is no longer a need to establish, develop, and expand democracy in China. On the contrary, in my opinion, this question is currently very urgent and particularly so since we experienced last year's incident.

However, as I see it, in building democracy in China in the days to come, we should pay greater attention to expanding and promoting the essential democratic rights that people can enjoy rather than blindly copying some form of democracy in the West.

The highest objective of the state is to bring happiness to the people. From a historical point of view, the purpose of developing democracy is always to prevent abuse, misuse, and even usurpation of power by powerholders for private gain.

This being the case, I hold: *When it comes to the long-term goal, in exploring the road to democracy, China should design and formulate a series of rules, regulations, and laws to ensure that the state's political and economic policy decisions can always embody the fundamental interests of the greatest majority of the people; that the people should be able to more effectively select, recommend, and use outstanding leaders loyal to the interests of the state and the people; and that the system under which the people supervise and impeach officials at various levels should be improved to enhance the sense of responsibility and sacredness of officials for the people.*

*China should also work out some channels, rules, and regulations to ensure that the channels of relations between policy-making bodies, governments at all levels, and the people are unimpeded and wider and that the feelings and will of the people and their criticisms can be expressed more freely and forwarded to policy and decision centers more rapidly. Some of their rational criticisms should influence the state's policymaking and policy decisions more effectively and, at the same time, such criticisms should be made according to the law and bear legal responsibility, without disrupting order and stability as a prerequisite.*

I am convinced that with the expansion of democracy in China, the modes of political leadership will be developed and improved to some extent and they will become more rational and flexible.

### VI. The significance of Marxism to China

I remember that Marx, Lenin, and Mao Zedong seemed to say: No party can exist forever. When a party comes into being, it will wither away. However, I neither favor its withering away right now, nor do I think it will wither away right now. *Without the Communist Party in China, Chinese society would once again become a plate of loose sand and China would lose a core political organization able to rally 1 billion people or more. Chinese society will fall into grave political chaos and the will of the people will*

*be sapped.* This will bring catastrophe to China and to the Chinese who suffered untold sufferings in the 20th century,

First, Marxism is an ideological weapon with which they opposed colonialism and imperialism. It inspired the Chinese people, who then faced the crisis of their country being carved up and subjugated, to carry out the victorious national liberation war this century. It was precisely under the banner of Marxism that the Chinese revolutionary nationalism (or patriotism) in the 20th century took shape. The revolutionary nationalism has effectively saved China which was on the brink of division in the 100 years of social unrest from 1840. As a spiritual force, Marxism has played an irreplaceable role in protecting the Chinese economy, safeguarding its market, developing its industry, and developing its national spirit.

Second, Marxism favors nationalization (public ownership) and unified planning of social capital and resources. This theory is conducive to rapid concentration and accumulation of industrialized capital and enables industrially backward countries to concentrate their scattered capital, resources, and economic strength and resist the economically powerful and technologically advanced international monopoly capital on the international market.

Third, as a theory which safeguards the interests of the workers and impoverished peasants, Marxism favors narrowing the gap between rich and poor in society, checking their division, and providing a social security mechanism for the poor. The state policies formulated under the guidance of the theory have enabled China to avoid, in the early stage of its industrial revolution in the 1950's, the barbarous expropriation which occurred universally during the period of primitive accumulation of capital in the West (Please review the enclosure movement and the population mobility control law in Britain and North America's black slavery plantation system, its bloody movement to develop the American West, and the cruel American labor system in the 18th and 19th centuries).

Fourth, under the guidance of Marxism, communist party organizations and large-scale social movements aimed at modernization of the state have emerged. This has enabled the Chinese nation, which was devastated after the Western forces entered the country, to regain a powerful political rallying power and an invigorating spiritual force, thus accelerating the process of China's economic and political modernization.

No matter what mistakes the Communist Party committed in the last 40 years since 1949, I think the above four points can hardly be completely obliterated by fair-minded people.



## VII. The East European Issue and Prospects

Why did the Soviet Union and Eastern Europe fail to run their own affairs successfully and why did such tremendous changes take place? The reasons for their current situations are very complex and call for earnest pondering.

However, there is another important historical fact and that is, as a global movement, socialism has always faced international pressure, economic blockade, and various challenges. *The pressure and challenge from the international capitalist groups have a more profound, historical meaning which surpasses pure debate over the socialist system and ideology. To put it another way, the advanced industrialized countries of the older generation represented by the United States must check the contention of the up-and-coming and threatening economic group headed by the Soviet Union for world resources, world market, and the leading political position in the world economy. This external factor has indeed functioned through internal factors.*

One phenomenon also affords food for thought. As everybody knows, the East European group was beset by numerous economic, political, and social problems. However, in the current world, not only socialist countries are encountering trouble. Countries with a low level of political democratization are not confined to socialist states. For example, in South America, Asia, Africa, and even in Europe, there are many countries practicing capitalism but their economic and political situations are also not promising. The situations of some countries are even not as good as those of East European countries but why is the international community not concerned about their social conditions? It seems that poverty, political corruption, and even military coups and totalitarian autocracy in such societies are something not at all surprising, which happen naturally, and have nothing to do with the social system. However, if things of this kind happen in socialist countries, they are regarded as being inevitable and inherent in the system. Moreover, this gave people a false impression: It seems that the living standards of the people in all of the world's countries practicing capitalism are as good as those of the United States; that all socialist countries have made a complete mess economically and politically; and that as long as China introduces the American-style system, the living standards of the Chinese will immediately reach the U.S. level. In fact, you naturally know that this is not a fact.

*Even if all countries in the world adopted the same political and economic systems, they would not necessarily have the same opportunity and conditions to achieve prosperity, civilization, and modernization. What will the economic and political prospects of East European countries look like in the final analysis? Will they become as developed as their West European counterparts?*

According to my estimate, with the exception of East Germany which can draw support from West Germany,

I am afraid the prospects for the rest of the East European countries are not necessarily promising. As a celebrity economist, you must understand better than I that the world today faces universal resource shortages, acute market competition, and a latent global crisis. I wholeheartedly hope that, in the days to come, East European countries can avoid taking the road of huge debts and a malignant circle of economic difficulties as some developing countries in South America, Asia, and Africa are now doing.

## VIII. On the 1989 Tiananmen Incident

*I note that the then popular discontent was concentrated on issues such as runaway inflation, imbalanced social distribution, and corruption and pursuit of privileges among officials. Many citizens were also strongly dissatisfied with the drastic division between rich and poor in society, the loss of social values, the worshiping of money, and the corruption of politics by money. These were precisely the main force driving them to go on to the streets. This feeling precisely has the significance of resisting the capitalist concept of value.*

I opposed the incident from its very start. To put it another way, I disagreed with the unreasonable expression of views by means of undermining the legal system. However, I do understand their dissatisfaction.

*Those good and honest people did not know that the political intentions of the backstage manipulators of the incident were completely contrary to the wishes of the general public. If they were to assume office, they were bound to work out numerous policies to further develop and deepen these phenomena. Hence, the incident will have very absurd meaning. The people's dissatisfaction and demands have a spontaneous tendency to resist capitalism. However, the political orientation in which the backstage manipulators of the incident were aiming was attempting to deepen and develop capitalism.*

In this sense, were the wishes, dissatisfaction, and indignation of those good and honest people not used by the conspirators?

Political reform is easier said than done.

*First of all, China is a big country. She is big enough in scale to form, in reality, a world. In the eyes of foreigners, the Chinese are all probably homogeneous. But, in fact, the country's political, economic, and cultural development varies from region to region and the political level also differs from individual to individual.*

*On one and the same issue, the view of a Beijinger and a resident from the hinterland provinces, such as Gansu or Qinghai can probably be as far apart as heaven and earth. Therefore, in my opinion, in devising any political reform in China, among other things, it is necessary to take this complicated national condition into account. Currently, the state is attaching importance to conducting political and ideological education among its citizens. It is appropriate to give priority to the solution of the political and*

policy-related problems that can be found almost everywhere, in particular the problems that attract people's wide attention, such as corruption and perversion of justice through bribes among cadres. This is also precisely the concrete measure for political reform or renovation.

When talking about political reform in China, it seems that foreigners cast their eyes on whether or not a multiparty system is practiced in China.

*In fact, 20 years ago, when China launched the Great Cultural Revolution, people could freely build a party or faction for a time. As a result, in every city, rural area, and trade, there emerged seven or eight, and in extreme cases even more than ten, political organizations bearing a multitude of names, such as the fighting force and the alliance of rebels. They were engaged in endless debates all day long and in the end they resorted to violence, creating great disorder throughout the country. The wounds of factional fighting, in particular the fissure of feelings, were not yet healed even after the end of the Great Cultural Revolution. In a certain sense, the situation then was, in fact, one in which a form of multiparty and multifaction system prevailed. On the basis of China's current social and political development level, if people are allowed to establish a party freely, I think that situation will surely repeat itself.*

#### IX. Will History Reevaluate the 1989 Incident?

I am aware that people holding different stands at home and abroad have very divergent views on the incident.

However, I firmly believe that no matter how the situation evolves, it is very difficult to let history highly reappraise the incident. I know some people are attempting to compare the incident with the 1976 Tiananmen incident. The two incidents were seemingly in harmony but were actually at variance and comparison is beside the point.

The 1976 incident was basically a spontaneous creation by the general public, with the aim of negating the Great Cultural Revolution and supporting Deng Xiaoping to whom the popular will inclined. By then the Great Cultural Revolution had courted widespread indignation and discontent. So, the 1976 Tiananmen Incident conformed to heavenly principles and popular feelings. It gave a push to the subsequent big change and reform in the economic, political, ideological, and cultural fields. This is why history highly appraised it and regarded it as the turning point of China's effort to move toward progress, make reform, and open itself to the outside world.

However, last year's incident was manipulated from its very outset by various complicated political forces from behind the scenes. The whole incident was clouded by a flavor of conspiracy from beginning to end.

Superficially, they fought for democracy but what really went on behind the scenes and what were their real

objectives have perhaps not yet been thoroughly exposed thus far. I contacted some good, honest, and innocent people who were involved in the incident. After the incident they felt a feeling of having been fooled by others.

Although there are some superficial similarities between the two incidents, they are completely different in essential consequences and significance. Fortunately, the incident was quickly checked. Otherwise, it would be difficult to predict what would happen further in China. For the above reasons, as I see it, it is very difficult for history to reappraise it.

#### X. On China's Prospects

China may develop only in two possible directions. One is that the situation of stability and unity will continue to last. The party and the government will have enough time to correct various mistakes and, at the same time, they can avoid new major errors. In this way China will surely overcome adversities and difficulties step by step and its economic development will be revived and accelerated. At the beginning of the next century, China will become a thriving and prosperous modern country. By then, when we look back at the incident, it will probably be a distressing one but on no account will it be a glorious page in the annals of our country.

The other is that some forces at home and abroad will succeed in their schemes to undermine China's stability and unity in the end and China will once again fall into great chaos and disintegration. By then it is highly likely that the situation following the 1911 Revolution at the beginning of this century may reoccur whereby politicians and warlords set up their separatist regimes and fight with one another and foreign forces meddle in and carve up our country. China will then fall into a huge catastrophe and tens of thousands of people will become refugees wandering everywhere due to chaos and civil war and, consequently, the standing of the Chinese living abroad will suffer a disastrous decline.

Under these circumstances, the 1989 incident will not be added to the history book as a glorious page. On the contrary, people will find that it was nothing but the prelude of numerous historical catastrophes. *China is a big, important, and populous country. If it falls into disaster and chaos, I am afraid there will be no one in the world with economic and political power strong enough to control the situation. The problem of refugees alone will greatly plague the international community. So, I really find it difficult to understand why some intellectuals in the West feel so happy with the unpropitious incident that they went so far as to encourage it. Is this a rational expression?*

I still remember after the events took place in Eastern Europe, some Western politicians had an optimistic estimate about the future of the world. It seems that mankind would enter a completely new era in which universal democracy and lasting peace prevailed.

It is pity that I failed to see such a bright prospect and, at that time, I had another faint premonition and worry.

*I saw some political pillars that had propped up world peace for more than 40 years collapse and the balance of world forces being disrupted.* In recent years, do the frequent signals warning about stock and banking crises, and the shadows of inflation and stagnation, indicate a certain more profound global economic crisis? The

national crisis in some regions is also deepening and the shadows of latent local wars and civil wars are looming. In the final analysis, will the world move to an era of lasting peace or to an era of global warring states in which social unrest is frequent and widespread and medium and small local wars are frequently and interchangingly fought? In my opinion, all people who really hope that tomorrow will be better than today should heighten their vigilance against this!

## NATIONAL AFFAIRS, POLICY

**Policies Hinder Enterprises' Economies of Scale**

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[Article by Zhu Gang (2612 6921) and Chen Yaoxing (7115 5069 5281): "An Initial Study on the Policy Factors in the Uneconomic Scale of Enterprises"]

[Text] The uneconomic scale of enterprises is a chronic problem that has puzzled China's industrial and economic circles for many years. Many articles have been written studying and analyzing the problem. In the past few years, as the study develops in depth, the focus of the discussion has begun to shift to factors affecting the economies of scale. We hold that the uneconomic size of China's enterprises is attributable to many factors, including policy and system factors and structural and technological factors. As indicated by the topic of this article, the following discussion is limited to the policy factors contributing to the uneconomic scale of enterprises.

**I. Policy Factors for the Uneconomic Scale of Enterprises**

Numerous policy factors have contributed to the uneconomic scale of enterprises. An initial study identifies six major ones.

*First, the influence of industrial policies on the scale of enterprises.*

Since the founding of the People's Republic, we have, on the policy of industrial organization, adhered to the principle of "walking on two legs" and simultaneous development of large-, medium-sized, and small enterprises. As a result, we built on the one hand a large number of projects which met the requirements of large-scale production at the time, 156 projects in the 1950's, for example. But, on the other hand, we also built a number of small enterprises which were low in economic efficiency and did not meet the requirements of large-scale production. The "five small" industries [producing iron and steel, coal, chemical fertilizer, cement, and machinery] were a typical result of this policy. Owing to the faulty industrial organization policy, our enterprises are uneconomic both internally and externally, and our industrial structure has followed the "large and all-inclusive" or "small but all-inclusive" patterns. The irrational organization of production factors has long hindered the development of China's productive forces. And, even in building enterprises of an economic scale, we paid attention only to the requirements of the static economies of scale but failed to pay attention to the dynamic economies of scale. Thus in industrial policy, we failed to pay enough attention to the specialization and cooperation and the technological transformation of

large enterprises. Even though the enterprises established in the 1950's and 1960's were up to the requirements of large-scale production at that time, some no longer qualify as economies of scale by present standards. From an industrial-economic viewpoint, the increasing uneconomicness of the scale of enterprises reflects the increasing backwardness of the organizational structure of China's industries. The policy of relying on increasing the number of enterprises to expand the production scale can only result in duplicate construction and unwarranted expansion, which will greatly reduce the productive and competitive capacities of China's industries.

Since the beginning of the reforms, faced with all kinds of problems caused by the uneconomic scale of enterprises, we have been forced to re-examine our past industrial policies, and the need for a sound policy on industrial organization has become obvious. However, to effectively implement an industrial organization policy, the following three conditions are needed:

1. a centralized and unified central government supported by strong financial resources and guaranteed by legal means;
2. well-developed markets which can provide accurate signals; and
3. enterprises which are vigorous, upright, independent, responsible for their own profits and losses, and able to react quickly to market signals.

In China, the latter two conditions are nonexistent, and the first condition is still imperfect. Therefore, the present industrial organization policy is very ineffective. This is also one of the major reasons why the tendency toward duplicate constructions, duplicate imports, and small-scale operations has further developed since the beginning of the reforms and opening to the outside world.

On the other hand, our policy on industrial organization has not been thoroughly and theoretically researched, and the method, procedure, and other technical aspects of the formulation of our policy on industrial organization are not very scientific. We have to recognize that to a certain extent this is also an important factor for the organizational imbalance of China's industries. At present, no one can scientifically explain what is the best minimum size of an enterprise of a certain trade under China's present technological and economic conditions, and what is the optimum size. Without clear-cut boundaries, the industrial organization policy can set no definite limits for restraints, and it is difficult to correct the uneconomic size of enterprises.

*Second, the influence of the investment examination and approval system on the scale of enterprises.*

In keeping with the traditional, highly centralized, planned economic system, our investment system also had a highly centralized management pattern in the past.

The power to make investment decisions was concentrated mainly in central, provincial, and municipal government departments. Their power in making investment decisions differed according to their respective administrative levels: the higher the administrative level, the greater the authority. The state set strict limits to the authority of government departments at each level to examine and approve investment projects. In order to strictly control the scale of enterprises, no enterprise whose investment exceeded the authorized norms could be established. This investment examination and approval system had been in effect for more than 30 years, and the result is a large number of small enterprises which do not meet the requirements of economies of scale.

Since the beginning of the reforms, the state's role as a major investor has been greatly diminished. The number of major investors has been increasing. However, because of the lack of a capital-accumulating mechanism and the implementation in the past few years of the financial contract system at every level, the governments at various levels, out of their functional demands and in pursuit of profits within the scope of their own jurisdiction, are inevitably inclined to seek quick success and instant benefit by developing products which can directly increase their income. Thus it has become even harder to guarantee that newly established enterprises will meet the requirements of economies of scale.

The irrationality of the investment examination and approval system is manifest not only in the division of authority to examine and approve investment projects on the basis of administrative levels, but also in the disproportion between the power of those examining and approving investment projects and the risks they undertake. Because the governments at various levels are not required to bear any responsibility and risk in examining and approving investments, they do not need to worry about the consequences in examining and approving all investment projects. As a result, the governments at various levels will react accordingly to changes in market demands, and duplicate and scattered investments will be unavoidable. The duplication of similar economic structures in the past few years is a result of this system.

*Third, the influence of enterprise reform policies on the scale of enterprises.*

Since the beginning of the reforms, in order to invigorate the urban enterprises, particularly large- and medium-sized urban enterprises, the state has carried out such enterprise reforms as separating the functions of the government from those of the enterprise, delegating more powers to the enterprises and allowing them to retain more profits, and so forth; it also made a series of policy decisions. Thus, the enterprises have begun to change gradually into independent commodity producers with the power to make their own decisions and assuming full responsibility for their own profits and losses. In order to grow and make more profits, the enterprises naturally will take full advantage of their

decision-making power to expand their scale of production in every possible way. Since the implementation of the management contract system, the relationship between the state and the enterprise in distribution has been more clearly defined, allowing the enterprise to retain a greater portion of the profits than before, and enterprise drive and profit mechanisms are beginning to take shape. In order to fulfill their contract obligations at an early date and make as much money as possible, the enterprises will naturally increase investment and expand their scale of production and operation, while strengthening management and tapping potential capacity, and the increased profit retention by the enterprises has also made expanding the production scale a real possibility. Yet despite the much-increased profit retention, as far as the individual enterprises are concerned, the amount of money that can be actually invested for expanded reproduction remains very limited. And the credit system under the market mechanism has not yet been well developed. Consequently, the effort by each individual enterprise to expand its own scale will only result in the scattering of society's investment funds in small projects and the construction of a large number of new facilities of uneconomic scales. This phenomenon has also been used by some people as an argument against delegating more power to the enterprises and allowing them to retain more profits.

Actually, the problem is not the reform policy of delegating more powers to the enterprises and allowing them to retain more profits, but our failure, while delegating more powers to the enterprises and allowing them to retain more profits, to really establish the position of enterprises as relatively independent commodity producers and to build a corresponding macroeconomic regulation and control mechanism. Because even with the implementation of the enterprise management contract system, the relation between the state and the enterprise in ownership remain unclear, and especially because the pattern of government interference in enterprise management has not really changed, it is difficult for the enterprises to really act as their own bosses and assume responsibility for their own profits and losses; as well, it is impossible for them to use the market mechanism to reorganize the production factors, keeping the good and discarding the bad. Moreover, while expanding the decision-making power of enterprises, we have failed to appropriately improve the state's macroeconomic regulation and control, and as a result the existence of large-scale but uneconomic enterprises has become a reality.

*Fourth, the influence of regional policies on the scale of enterprises.*

Before the reforms, owing to the barriers between different departments or regions caused by the traditional system, each region wanted to have a "complete" and "self-contained" production setup of its own. It is only natural that enterprises of uneconomic scales have developed as a result. For example, although we have always advocated the principle of a high starting point, mass

production, and specialization for the auto industry, owing to the serious barriers between different departments or regions and the regional blockades, many provinces and municipalities, proceeding from their own interests, have developed the auto industry in a big way with disastrous results.

Since the beginning of the reforms, the decision-making power of enterprises and that of local governments have tended to expand at the same time, further stimulating local protectionism which was serious even before the reforms and causing the industrial structure which was formed in a stratified planned economy to lean further toward an increasing number of small enterprises. Theoretically speaking, a sharp increase in the number of enterprises should mean increased pressures of competition. However, because the market has been carved up into small, local markets, newly established enterprises can always find a ready market for their products, which are actually not in short supply. And, the mutual blockade between regions has artificially hindered the flow of raw materials, capital, and products, forming China's peculiar structural barriers, leading and giving protection to the uneconomic scales of enterprises. To be sure, the local governments cannot openly pursue a regional blockade policy, but in fact they do have some policy-like rules either openly or secretly, which have become hard-to-break trade barriers. The series of raw material wars that have broken out in the past few years are clear proof.

*Fifth, the influence of government protective policies on the scale of enterprises.*

Theoretical research has shown that only by avoiding monopoly and excessive competition and by having markets in a state of effective competition, will it be possible to encourage the enterprises to constantly improve their performance and move in the direction of economies of scale and cooperation on the basis of specialization. However, because our economy has long been restrained by supply, the markets have always been in a state of shortages, and the enterprises can make abnormally high profits. Especially because the government and departments in charge at various levels have adopted a series of protective policies for enterprises, giving enterprises a lot of preferential treatment and support and refusing to recognize the actual bankruptcy of enterprises, China's enterprises are "over-protected." Thus, on the one hand, the existing enterprises in the markets have lost the motivation and pressure for improvement; while on the other, because of the many obstacles barring new enterprises from entering the markets, there is hardly any competition among the existing enterprises, which has resulted in an abnormal industrial organizational pattern, that is, the basically peaceful coexistence of large enterprises, small enterprises, enterprises of economic scales, enterprises of uneconomic scales, and enterprises of all kinds. Backward enterprises do not have to worry about being eliminated through

competition, advanced enterprises have no way to develop quickly, and uneconomic scales will remain indefinitely.

*Sixth, the influence of financial and monetary policies on the scale of enterprises.*

As the state's control over enterprises is changing from mainly direct to mainly indirect control, the impact of macroeconomic policies on the scale of enterprises will become increasingly more important. However, because of our lack of experience in indirect control, we are still not adept in using economic levers to regulate and control the economic activities of enterprises, and some specific policies are also imperfect, making it difficult for enterprises to operate on a reasonably economic scale.

In monetary policies, because of our failure to pay due attention to the role of banks in the indirect distribution of funds and to really give banks the power to decide on the total amount of loan funds and specific investment projects, banks remain basically disbursing agencies distributing funds for governments at various levels. As a result, loans are not extended to enterprises on the basis of production and operational conditions. As available loan funds fall short of demands, government at various levels, in order to help enterprises solve their shortage of funds, encourage them to raise funds in other ways, which unavoidably cause the flow of some funds into inefficient enterprises. At the same time, the low interest rate (actually negative interest rate) policy, which has been in effect for a long time, has aggravated the decentralized use of funds, making it impossible to use funds as a means to regulate the scales of enterprises.

In financial policies, because of our failure to implement a fair tax policy, we have on the one hand imposed heavy taxes on the large- and medium-sized key enterprises, making it difficult for them not only to achieve expanded reproduction but even to continue simple reproduction. On the other hand, we have given various tax reductions and exemptions to the small- and medium-sized enterprises, particularly the town and township enterprises and enterprises running at a loss due to poor operation and management. This is not only against the principle of fairness in taxation, but also is making it impossible to keep the good and eliminate the bad through competition. There is even the strange phenomenon that large enterprises with advanced equipment and strict management are unable to compete with small- and medium-sized enterprises. Without rational distribution of social resources, it is hardly possible for enterprises to achieve better economies of scale.

## II. Major Measures to Improve the Economies of scale for Enterprises

Summing up the above-mentioned policy factors for the uneconomic scale of enterprises, it becomes obvious that the uneconomic scale of China's enterprises is caused generally by one of two circumstances. One is the imperfection of the policies themselves, for example, the vagueness of the industrial policy, the imperfection of

the financial and monetary policies, the lack of thoroughness of the enterprise reform policy, and so forth. The other is the distortion of the policies caused by macroeconomic conditions, such as the lack of a developed commodity economy, the uncertainty of the role of enterprises as commodity producers, the imperfection of the market system, the failure to break the barriers between departments and regions, and so forth. Therefore, to improve the economies of scale for China's enterprises, it is necessary to adopt appropriate measures to improve both the policies themselves and the macroeconomic conditions for their implementation.

### *1. Improvement of Economic Policies*

First, it is necessary to step up research on economies of scale and formulate a suitable enterprise scale law as a part of the policy on industrial organization. On the basis of the current industrial census, with reference to foreign standards, and in the light of China's conditions, we should organize experts and scholars in various fields to study and look for standard economic scales for different industries suited to China's level of economic and technological development and, on this basis, formulate laws and regulations on economies of scale as a part of the industrial organization policy to achieve economic scales of production in factories. It is necessary to curb excessive competition based on uneconomic scales of production and promote effective competition with economic scales of production. At the Fourth Session of the Fifth National People's Congress, the State Council reported that it had already instructed the relevant departments to set standards for the operation of factories of different industries and products, spelling out the minimum requirements on batch production, output, quality, and material consumption, and that factories which fail to meet these requirements within a definite time limit must stop production for reorganization or close down. Now we must make the economies of scale the top priority of our industrial organization policy to develop our traditional and modern industries and strengthen the ability of China's industries to compete internationally.

Second, it is necessary to adopt various policies to vigorously develop enterprise groups and cooperation on the basis of specialization and achieve the economies of scale in enterprise management. The development of enterprise groups is the key to the organizational restructuring of China's industries. We should formulate a clear-cut enterprise group law to make the large key enterprises the force at the core of enterprise groups and establish by policy and law the leading position and driving force of the enterprise groups in the industrial organization. In policy, we should simultaneously reform and eliminate the small- and medium-sized enterprises, absorb through reorganization of the production factors a large number of small- and medium-sized enterprises with internal economic ties into the enterprise groups or their networks to form multi-tiered networks of closely or loosely related enterprise groups. It is necessary to achieve rational specialization and

cooperation in production, while at the same time, eliminate the small- and medium-sized enterprises which are poorly managed and cannot be reorganized, thus putting an end to the irrational "large and all-inclusive," "medium and all-inclusive" and "small but all-inclusive" patterns of the old organizational structure of industries.

Third, it is necessary to reform the fixed assets investment control procedures and use the economies of scale standards to limit the government's investment control power. After the standard economic scales for different industries are established, they should be included in the investment control regulations. It is necessary to bring into play the role of finance and credit in macroeconomic regulation and control and encourage enterprises to develop toward economic scales of production through differential tax and interest rates. The monetary policy should strengthen the central bank's regulatory and control capacity. At present, with the excessive growth of investment and scattered use of funds, it is necessary to increase the reserve ratio and relending interest rates to control the source of enterprise loan funds, and raise the level of interest rates of society as a whole. It is also necessary to strictly control the various forms of borrowing by enterprises to prevent the scattered use of funds from directly translating into small-scale enterprises.

### *2. Creation of Objective Conditions for Implementation of Policies*

First, in the light of the requirements of economies of scale, it is imperative, first of all, to break the "barriers between different departments and regions," really separate the functions of the government from those of the enterprise, eliminate unnecessary external administrative interference in business, and change the pattern of running enterprises according to the administrative chain of command and by administrative corporations. It is necessary to rely on the key cities to manage the economy according to the requirements of large-scale socialized production, organize production by the enterprises according to their internal economic relations, and turn the enterprises into real operating entities of a commodity economy.

Second, we must put an end to the double-track price system step by step. The irrational double-track price system is the very condition on which some irrational enterprises rely for existence. To solve the problem, it is necessary to actually push all enterprises into the market and make them compete on equal terms and from the same starting line. For this reason, we must carry out in-depth enterprise reform, starting from improving and developing the contract system, and straighten out the relationship between the enterprises and the state so that the enterprises will consciously and voluntarily pursue economies of scale.

Third, it is necessary to establish and perfect a socialist market system, especially different forms of money markets, equity markets, and technology markets, to facilitate the reasonable flow of the labor force and remove the capital and labor (particularly technical and managerial personnel) restrictions faced by enterprises in trying to reach a rational scale of production. Such a market mechanism will certainly help the enterprises achieve economies of scale faster.

In the above we have briefly analyzed the policy factors for the uneconomic scale of enterprises and suggested a few tentative measures to deal with the problem. It should be noted that policy factors are the most influential factors in China. According to the principle of solving the easier problems first and the harder ones later, we should soon start with the policy factors to readjust the present pattern of uneconomic scale of enterprises, and then, on this basis, to tackle the institutional, structural, and technical factors in an orderly way, step by step, and gradually push China's enterprises toward economies of scale.

#### **Chronology of Price Sector Events During 1989 (Parts I, II)**

90A50068A Tianjin JIAGE LILUN YU SHIJIAN (PRICE: THEORY & PRACTICE) in Chinese No 2, 20 Feb 90; No 3, pp 58-64, 20 Mar 90 pp 59-64

[Article: "Chronology of Major Events in Price Sector During 1989"]

#### **[Part I No 2, 20 Feb 90 pp 58-64]**

##### **[Text] January**

5 January. JINGJI RIBAO reported that beginning 1 January 1989, the State Price Bureau and the State Technology Supervision Administration jointly promulgated and enacted "Methods of Punishing Price Law Violations In the Course of Cotton Purchases and Sales" (Trial) to bolster supervision and control of cotton quality and prices.

5 January. RENMIN RIBAO reported that following State Council ratification, the Ministry of Finance issued "Regulations on Payment of Mining Area Use Fees in the Extraction of Marine Petroleum Resources."

8 January. RENMIN RIBAO reported that the State Council Dwelling System Reform Leadership Team Office officer-in-charge gave a talk on 7 January in which he reiterated that the selling price of dwellings is to be set fairly in accordance with provisions of pertinent State Council documents to guard against the sale of publicly owned dwellings at cheap prices.

13 January. JINGJI RIBAO reported that State Price Bureau Deputy Director Wang Xingjia [3769 5281 1367] said at the National Price Supervision and Inspection Work Conference that price supervision and inspection work during 1989 is to focus closely on the goal of

controlling the degree of price rise at a level markedly below that of 1988. He said that during 1988 emphasis should be placed, first of all, on inspecting and stabilizing prices of things closely associated with the daily life of the people, including grain, edible oil, meat, eggs, vegetables, salt, and sugar, as well as cotton yarn, polyester-cotton yarn, cotton cloth, polyester-cotton cloth, coal, washing powder, soap, toilet paper, matches, and color television sets.

14 January. RENMIN RIBAO reported that at a reception for Chinese and foreign correspondents on 13 January, State Council spokesman Yuan Mu [5913 2606] explained the issue of "Why the masses frequently feel that the actual degree of increase in prices is higher than the government published price index."

15 January. RENMIN RIBAO reported that State Council spokesman Yuan Mu disclosed at the reception for correspondents that the main problem in economic development during 1988 was the overheating of the economy and currency inflation. Industrial speed of growth remained at 17.7 percent, and the retail price index for the whole year climbed 18.5 percent.

18 January. JINGJI RIBAO reported the 16 January State Council issuance of a notice calling on all jurisdictions to resolve to stabilize lunar New Year market prices. The notice called upon all jurisdictions not to raise the prices of city rations of daily necessities, including major foodstuffs such as grain, edible oil, meat, and sugar, as well as salt, and popular vegetables, matches, soap, washing powder, and toilet paper. Likewise, public utility fees, school fees, and medical treatment fees, which are closely related to the people's daily lives, should not be increased. All jurisdictions should intensify control over negotiated prices of grain and edible oil to prevent middlemen from jacking up prices.

The notice also called upon all jurisdictions to continue to do more to control and guide removal of controls on commodity prices. The system for reporting price rises of the more important varieties of industrial goods is to be perfected for strict control of price margins between one region and another, between selling and purchase price, and between wholesale and retail price. When necessary, a maximum price is to be set for principal country fair non-staple food sales.

19 January. RENMIN RIBAO reported that on 18 January the State Statistical Bureau issued Statistical Report No 01 for 1989 providing a preliminary analysis of the operation of the national economy during 1988. The report referred to the too high a degree of increase in prices, substantial potential elements of market instability, and difficulty controlling price rises.

19 January. RENMIN RIBAO reported national publication of the "Land Administration Code of the People's Republic of China," Chapter 6 of which provides specific methods for the payment of compensation in the requisitioning of land.



22 January. JINGJI RIBAO reported that following State Council ratification, the Chinese People's Bank decided to readjust all savings and loan interest rates effective 1 February 1989.

25 January. JINGJI RIBAO reported recent State Council Office transmittal of the National Tourism Bureau's 10 points for improving tourism work, including the portion on reforming tourism prices.

25 January. The State Council issued "Notice on the Institution of Monopoly Control Over Color Television Sets," providing for the institution of monopoly control over color television sets effective 1 February 1989, and organizing its implementation in accordance with the principle of "streamlining control and streamlining sales." Monopoly prices of color television sets are to be uniformly set by the state. Once sales of television sets become a monopoly, the state will level a special consumer tax on color television sets that business enterprises are to pay to the central government treasury.

27 January. JINGJI RIBAO reported recent State Council issuance of "Notice on Intensifying Agricultural Pesticide Control, Severely Cracking Down On the Manufacture and Sale of Fake and Inferior Quality Agricultural Pesticides."

The notice said that the State Council decided to exercise monopoly control over agricultural pesticides effective 1 January 1989. Monopoly units will not be permitted to purchase or sell agricultural pesticides that have not been registered and that do not have a production permit (or production permit).

## February

1 February. An emergency notice from the State Price Bureau stated that following special State Council ratification, the railroad coal shipping price is to be increased from number five to number seven effective from the date of receipt of notice, the coal surcharge to be abolished at the same time. A single shipping price is to be instituted without distinction for coal inside or outside plan. Coal shipments along the coast and on inland waterways under jurisdiction of the Ministry of Transportation are to rise from grade 3 to grade 4 effective from the date of receipt of notice, and various coal shipment surcharges are to be abolished at the same time. The market price of coal supplied for civilian use may not be raised; it is to be subsidized by local governments.

3 February. The State Price Bureau, the Ministry of Textile Industry, and the Ministry of Commerce jointly issued a document setting forth regulations on the rectification of prices of cotton yarn, cotton cloth, and knitwear.

11 February. JINGJI RIBAO reported that the State Council required the Ministry of Textile Industry to take action to insure that prices of chemical fiber raw materials remained stable.

11 February. The Ministry of Light Industry and the State Price Bureau jointly issued "Notice on Readjustment of Ex-Factory Prices of Newsprint in North China."

11 February. JINGJI RIBAO reported that the newspaper publishing business will institute new price, tax collection, and credit policies to protect books and publications of social benefit. All newspapers, periodicals, and books are to abide by the price reporting application and approval system.

18 February. JINGJI RIBAO reported that the State Price Bureau recently issued a notice requiring a major survey of prices of the agricultural means of production before the beginning of spring farming in 1989. Emphasis is to be placed on examination of enforcement of chemical fertilizer, diesel fuel, plastic mulch, and agricultural pesticide prices following issuance of State Council "Decisions on Monopoly Dealings in Chemical Fertilizer, Agricultural Pesticides, and Plastic Mulch." Major problems are to be traced back to 1988.

22 February. The Ministry of Electronics Industry, the State Price Bureau, and the Ministry of Commerce issued "Notice on Price Control of Color Television Sets That Enterprises Plan To Produce at Other Than State-Prescribed Sites."

26 February. JINGJI RIBAO reported a State Council ruling on a moderate increase during 1989 in cotton procurement prices, and the implementation of contracting methods for inbound and outbound shipments of cotton. After implementation of cotton shipment contracting methods, cotton transactions are to be under unified control of supply and marketing cooperatives, and a nationwide uniform procurement price and supply price is to be maintained. Double track and multi-channel dealings are not to be conducted.

26 February. JINGJI RIBAO reported that the State Council decided on a moderate increase in the amount of chemical fertilizer linked to contract grain procurement effective in 1989. Chemical fertilizer supplied in conjunction with contract grain procurement during 1989 is to be at 1988 prices.

28 February. The State Council issued "Notice on Raising Cotton Prices and Institution of Contract Methods for Inbound and Outbound Shipments."

## March

1 March. RENMIN RIBAO reported State Statistical Bureau publication on 28 February 1989 of its statistical bulletin on national economic and social development. The bulletin noted an 18.5 percent rise over the previous year in the overall 1988 retail price level (including a 25.7 percent rise in December over the same month in 1987). Broken down between city and countryside, the rise was 21.3 percent in cities, and 17.1 percent in rural villages. Broken down by commodity, food prices rose 23 percent, including a 14.1 percent rise in grain prices;

prices of meat, poultry, and eggs rose 36.8 percent; fresh vegetables rose 31.7 percent; aquatic products rose 31.1 percent; clothing rose 12.7 percent; daily necessities rose 12.2 percent; pharmaceuticals and items used for medical treatment rose 24.8 percent; fuel rose 16.1 percent; and agricultural means of production rose 16.2 percent. During 1988, the overall level of prices of things used in the daily life of staff members and workers rose 20.7 percent over the previous year, and prices of the means of livelihood rose greatly. In 1988, the overall retail price index of 15 different major means of livelihood from goods and materials units rose 21.5 percent over 1987. This included a 21 percent rise for steel products, 50 percent for copper, and 38.6 percent for aluminum.

1 March. JINGJI RIBAO reported that the State Council 37th Standing Committee meeting considered and approved in principle a decision on increasing controls over nonferrous metals.

3 March. RENMIN RIBAO reported the basic completion of the pre-lunar New Year major examination of tax collections, government finances, and prices nationwide for 1988. As of the end of January 1989, a total of 7.41 billion yuan owing the treasury in violation of discipline was found through investigation nationwide. A total of 5.65 billion has been paid into the treasury. This is a respective 26.5 and 18.1 percent increase over the previous year.

This large scale investigation found glaring violations of the law and discipline in all jurisdictions. First was the cheating on and evasion of industrial and commercial taxes, and on energy and transportation fund; second was unauthorized charges to costs, retention of profits, and false reporting of losses; third was unauthorized surcharges and collections of fees; fourth was indiscriminate issuance of bonuses and goods, use of public funds for entertainment and gift giving, traveling at public expense, and unauthorized purchases of monopoly controlled commodities; and fifth was graft and pilferage, bribe taking, abuse of authority for private gain, and embezzlement.

7 March. JINGJI RIBAO reported that Industry and Commerce Administration Deputy Director Liu Minxue [0491 2404 1331] said that grain (including rice) was not a state monopoly, but that problems to be solved in administration were meddling by too many agencies, driving up grain prices, disruption of grain markets rather than the choking of commodity flow channels. Grain not covered by plan remains under market regulation, prices fluctuating with the market.

7 March. The State Price Bureau and the Ministry of Commerce jointly issued a document presenting views on the planning of guidance prices for live hogs: The overall level for live hog procurement prices for all of 1989 is to be calculated in most areas on the basis of the local state-owned grain unit negotiated price of corn. The price ratio between hogs and grain is to be held at no less than approximately 1 to 5.5. In different areas, the price

ratio may be somewhat higher or somewhat lower in the application of general methods to specific circumstances. Seasonal price differences are to be equitably maintained.

8 March. JINGJI RIBAO reported that the National Grain Work Conference reported that the state set a moderate rise in the contract procurement price of grain and edible oil effective 1 April 1989.

8 March. The State Price Bureau and the Ministry of Economics and Trade issued a notice on raising the maximum price limit for silkworm cocoons.

10 March. RENMIN RIBAO reported that the State Price Bureau, the National General Trade Union, and the Ministry of Finance jointly published a notice a few days earlier calling on all jurisdictions to improve staff member and worker price supervision and inspection work.

10 March. JINGJI RIBAO reported that the State Council recently ratified and forwarded "Views on Various Problems in the Expansion of Medical Care and Health Services" from the Ministry of Health and the Ministry of Finance. The State Council called on medical treatment and health units to enforce price policies strictly, not concocting various pretexts for collecting fees indiscriminately. The "Views" provided for a graduated scale of fees for medical treatment and health services based on differences in facilities and the level of skill in providing medical treatment. Collection of higher fees is permitted for units specializing in outpatient treatment, as well as for premium quality services of various kinds.

11 March. JINGJI RIBAO reported issuance of a State Price Bureau notice instructing all jurisdictions of a moderate downward float in prices for name brand cigarettes and alcoholic beverages. For example, the wholesale price of 13 name brand cigarettes is to float downward from between 5 to 10 percent from the prevailing base prices in producing areas, and some may go down slightly more. The retail price of 13 brand name alcoholic beverages is to float downward by between 10 and 20 percent from the present base price.

14 March. The State Price Bureau and the Ministry of Commerce issued "Notice on Supplementary Adjustment of Procurement Prices of Rapeseed Oil and Sesame Seed Oil."

14 March. The State Price Bureau and the Ministry of Commerce drew up regulations on tea guidance prices and administrative methods for 1989.

14 March. JINGJI RIBAO reported that the 38th State Council Standing Committee meeting discussed and passed "State Council Decisions on Main Points of Current Industrial Policies."

The "Decisions" provide policy support in the form of funds, tax collections, prices, foreign exchange, foreign

trade, goods and materials, and enterprise organization, as well as requirements for the organization of implementation.

21 March. RENMIN RIBAO reported the statement of State Council Premier Li Peng at the Second Session of the Seventh National People's Congress that in order to insure that the degree of price rises during 1989 is markedly lower than in 1988, the state intends diligent intensification of price and market controls, strictly enforcing financial discipline.

In discussing specific measures for the intensification of price and market controls, and rigorous enforcement of discipline, Li Peng stressed that no unit, jurisdiction, or enterprise may unauthorizedly raise prices or raise fee collection standards for means of production, means of livelihood, and fee collections under control of the State Council. Prices and fee collections under control of local governments at all levels are to be strictly controlled according to State Council regulations. State Council-set maximum prices for major agricultural by-products, industrial consumer goods, and certain means of production outside plan must be strictly enforced. Large- and medium-sized cities are to prepare a commodity catalogue of major nonstaple foods and other necessities in the daily life of the people, and adopt comprehensive measures to support their production and provide government subsidies to insure market supply of these commodities in the maintenance of basic price stability. Government at all levels is to intensify direction and supervision over the removal of price restraints. For the more important commodities, governments are to diligently enforce the reporting system for enterprise price increases, set equitable differentials between one area and another, between sale and purchase prices, and between wholesale and retail price; reduce the number of middlemen in commodity flow; halt middleman price gouging, and halt the shifting of responsibility by citing the raising of prices elsewhere.

22 March. JINGJI RIBAO reported that Minister of Agriculture He Kang [0149 1660] said at the second session of the Seventh National People's Congress reception for Chinese and foreign correspondents that prices of the fixed contract procurement portion of the country's grain procurement were to be increased 18 percent, and that cotton procurement prices were to be increased more than 10 percent.

23 March. JINGJI RIBAO reported that Deputy Minister of Agriculture Chen Yaobang [7115 5069 6721] said, when being interviewed by correspondents, that a better job must be done in distributing and supplying the agricultural means of production, in building and perfecting all systems, in regularly publicizing the kinds, amounts, and prices of agricultural means of production for distribution and supply, and in increasing transparency, making distribution plans public, prices public, and supply methods public.

24 March. The State Price Bureau, the Ministry of Materials, the Ministry of Metallurgy Industry, and the Nonferrous Metals Corporation jointly issued a document promulgating nationally uniform maximum prices for ferrous and nonferrous metals.

30 March. RENMIN RIBAO reported that on 29 March the Chinese People's Bank published an annual 12.59 percent assured value subsidy rate [tiebulu 6317 5943 3764] during the second quarter of 1989 for time deposits of three years or longer.

#### April

6 April. RENMIN RIBAO reported the publication today of "People's Republic of China Administrative Regulations on Mapping End Products," which provides that anyone who violates state-set fee collection standards for mapping end products, unauthorizedly raising prices when collecting fees for mapping end products is to have his illegal gains confiscated in accordance with "People's Republic of China Price Control Regulations," and may additionally be fined an amount equal to three to five times the amount of his illegal gains.

7 April. RENMIN RIBAO reported that State Council Deputy Premier and concurrently State Planning Committee Director Yao Yilin [1202 0181 2651] stated in a report to the second meeting of the Seventh National People's Congress that market retail prices of all categories of commodities increased during 1988, but that the rise in prices was too swift. The overinflation of social demand and the issuance of too much currency led to an 18.5 percent increase in the retail price index over 1987. Because of the inflation, several panic buying sprees occurred in the market, thereby worsening the shortage of commodities and causing substantial tumult in the commodity circulation realm. The main goals and tasks set forth in the 1989 plan are to achieve an increase and an improvement in effective supply by diligently controlling demand to make the rate of increase in the national retail price index markedly lower than in 1988.

7 April. RENMIN RIBAO reported that State Council member and Minister of Finance Wang Bingqian [3769 3521 0051] made a "Report on the Status of Implementation of the 1988 National Budget and the National Budget Draft for 1989" to the second meeting of the Seventh National People's Congress. The "Report" said that price subsidy payments of 31.695 billion yuan out of total national government expenditures for 1988 completed 88.5 percent of the budgeted amount. In 1989, 40.969 billion yuan of total national budget payments will be for price subsidies, including price subsidy payments of 5.507 billion yuan from the central government budget.

On 8 April, the State Price Bureau and the Ministry of Commerce issued "Notice on Readjustment and Depression of Unprocessed Tea Procurement Prices."

11 April. JINGJI RIBAO reported State Council approval and forwarding of "Key Points in Economic

System Reform During 1989" proposed by the state system reform committee. This included the following: Strict control of price increases, gradually establishing a differentiated price control system. No jurisdiction, department or enterprise may unauthorizedly raise prices of means of production and consumer goods, or of labor fees under direct state control. All state-set maximum price limits on all means of production and major consumer goods outside plan must be strictly enforced. Market prices are to continue in effect for all commodities on which price restraints have been removed; however, the reporting system must be followed in the readjustment of prices of an extremely small number of commodities among them, the specific scope to be set by price departments. Sales of imported commodities inside China must also abide by pertinent price control regulations. Rectification of medical treatment and education unit fee collection methods and standards.

13 April. RENMIN RIBAO reported that the State Price Bureau recently promulgated "Regulations on Trial Work Relating to Price Violation Cases," (Trial). These regulations provide "trial procedures for price violation cases."

15 April. RENMIN RIBAO reported that following State Council Approval, the National Radio Control Committee, the State Price Bureau, and the Ministry of Finance issued a joint notice recently providing for the collection in China of a modest radio control fee.

19 April. RENMIN RIBAO reported that the State Statistical Bureau Agricultural Survey Group's most recent sampling survey showed that peasant income during 1988 continued to increase over 1987. This included a fairly rapid increase in nonagricultural income for which the percentage increased. As a result of the increase in prices during 1988, peasant expenditures for living expenses and for purchase of the means of production increased 72 yuan per capita; however, the peasants earned an additional 68 yuan per capita as a result of the rise in prices of agricultural by-products and the price of rural labor, receipts offsetting expenditures. Price rises caused large losses and few gains for the peasants.

19 April. The State Price Bureau and the Ministry of Commerce jointly issued a telegram stating that in order to help the stable development of jute and ambari hemp production, and in order to satisfy the needs of the hemp textile industry, following State Council approval, it was decided that the 1989 procurement price for grade 2 ambari hemp would be 70 yuan per 50 kilograms. Since production and marketing conditions vary from place to place, a moderate fluctuation upward or downward from the above price base will be allowed, the amount of upward fluctuation not to exceed 5 yuan. The price for other grades are to be correspondingly arranged on the basis of set grade differentials. Jute procurement prices are to be arrived at by producing provinces and autonomous regions at a reasonable ratio to ambari hemp prices.

22 April. RENMIN RIBAO reported that State Statistics Bureau news spokesman Zhang Zhongji [4545 6945 1015] said on 21 April that on top of an overall 18.5 percent rise in the retail price level throughout the country in 1988, prices rose another 6.8 percent in February 1989 above the December 1988 level. During March, the rise slowed, remaining on par with the previous month.

27 April. RENMIN RIBAO reported that the Ministry of Foreign Economics and Trade, the Ministry of Supervision, the National Materials Bureau, and the National Industry and Commerce Bureau held a State Council-mandated joint telephone conference on 26 April to plan 1989 silkworm cocoon procurement. They further implemented "State Council Urgent Notice on Completely Unified Administration and Management of Cocoon Silk Procurement and Exports," and the "Supplementary Notice" of 25 April 1989 in order to prevent a recurrence of a "Cocoon War." At the meeting, State Council Deputy Secretary He Chunlin [0149 2797 7207] emphasized on behalf of the State Council the need for strict enforcement of state price policies. Cocoon and filature silk prices are set by the state. No jurisdiction may violate them, nor may they make subsidies or surcharges not included in the price under any pretext whatsoever.

27 April. The State Price Bureau and the Ministry of Foreign Economic Relations and Trade issued "Notice on Resumption of the Formulation and Administration of Castor Bean, Hemp and Cocoon Prices by Province and Autonomous Region Price Units."

28 April. RENMIN RIBAO reported that State Council member Chen Junsheng [7115 0193 3932] emphasized at a national 10 city conference for the exchange of experiences in vegetable system reform on 26 April that urban vegetable prices must be maintained basically stable. Plan price must be instituted for current season popular vegetables, and due control must be exercised over vegetable prices on which restraints have been removed. When necessary, price limits may be set for a small number of popular vegetables sold in country fair markets.

29 April. The State Price Bureau issued "Notice on Better Ordering and Supply Fair Price Controls For all Categories of Products."

## May

4 May. The State Price Bureau, the Ministry of Materials, and the Ministry of Foreign Economic Relations and Trade decided on the basis of the 18th and 19th meetings of the State Council Price Committee to act as agents in setting prices of imported timber and plywood within central government foreign exchange plan. They will make rulings on the formulation and control of port settlement prices, and market supply and marketing prices of imported timber and plywood.

6 May. The State Price Bureau and the Ministry of Forestry jointly issued a document making rulings on 1989 prices of pine resin and rosin.

11 May. The General Administration of Civil Aviation of China, and the State Price Bureau issued "Notice on Problems in Civil Aviation Transportation Enterprises Launching Extended Service," which provided for the collection of appropriate service fees for extended services.

13 May. RENMIN RIBAO reported that State Council spokesman Yuan Mu circulated a notice to Chinese and foreign correspondents on 12 May on the development of China's national economy from January to May 1989. Yuan Mu said that the momentum of price inflation had weakened. The price index in January 1989 was 5.3 percent higher than in December 1988; in February it rose 1.5 percent over January; and in March it rose 0.9 percent over February. March and April were substantially at par. Market commodity sales were relatively stable. The panic buying of a small number of commodities that occurred in a very small number of places during late February has substantially subsided.

State Statistics Bureau National Economic Comprehensive Statistics Department Director Zhang Zhongji [4545 6988 1015] said the average price index for the period January through April 1989 was 27 percent higher than for the same period in 1988, but that the rate of increase has declined month by month. Statistics show that in 18 out of 35 large- and medium-sized cities throughout the country, the price index was lower in April than in March.

23 May. JINGJI RIBAO reported that the State Council issued a notice to every province, autonomous region and directly administered municipal people's government and to all State Council departments concerned on firm efforts to fight disasters in order to harvest a bumper crop, and to do a diligent job of summer grain and oil-bearing crop procurement work. The notice noted a new turn for the better during 1989 in the development of the country's agriculture, and that state increases in the procurement prices of grain, cotton, and oil-bearing crops further stirred peasant enthusiasm for production.

27 May. The State Materials Bureau issued "Official Written Reply on Continuous Supply Labor Charge Standards for Ferrous and Nonferrous Metal Materials Outside Plan For Enterprises Under Direct Ministry of Materials Jurisdiction." Continuous supply labor charge standards for authorized companies concerned under Ministry of Materials jurisdiction and their subsidiary companies are as follows: Ferrous metal materials (including pig iron), 0.8 percent; and nonferrous materials, 0.6 percent effective from 10 June 1989.

28 May. The State Tobacco Monopoly Bureau, and the National Price Bureau jointly issued "Notice on the Printing and Distribution of 'National Flue-Cured

Tobacco Standard (Fourth Revision) Trial Prices'" to take effect from 1 July 1989.

29 May. RENMIN RIBAO reported that according to State Price Bureau data, during the first quarter of 1989, a total of 137,907 cases of price violations were investigated and disposed of, illegal earnings of 239,474,500 yuan being found. A total of 225,579,800 yuan was levied in fines, 95.8 percent of which has been paid to the treasury. As compared with the first quarter of 1988, the amount of illegal earnings found, the total amount of economic fines, and the amount paid into the treasury have increased substantially, the increases being 69.7, 87.8, and 90.2 percent respectively.

30 May. JINGJI RIBAO reported that the Ministry of Light Industry issued a notice that said that prices of light industry products have a direct bearing on social tranquility. Light industry enterprises in all jurisdictions are to firmly implement national price policies, do more to administer and control prices of light industrial products, and not raise prices arbitrarily.

#### June

2 June. JINGJI RIBAO reported that the State Industry and Commerce Administration issued a notice on the intensification of rectification to halt the jacking up of prices, speculation, and profiteering. The notice stressed the need to deal particularly severely with illegal use of administrative authority to resell at a profit important means of production and much sought durable consumer goods, as well as the resale at a profit of parity price goods within plan to reap exorbitant profits, which the public detests. Lawless elements' use of social disturbances to jack up prices, and to speculate and profiteer in violation of the law must be resolutely halted.

2 June. The Ministry of Machine Building and Electronics, and the State Price Bureau issued "Notice on Setting Temporary Prices for 53 Centimeter Television Sets."

14 June. JINGJI RIBAO reported that the CPC Central Committee and the State Council convened a meeting of persons-in-charge from various departments. Li Peng chaired the meeting and made an important speech in which he asked that all departments now do work in six regards, one of which is to continue to stabilize prices.

16 June. The Ministry of Commerce, the State Statistical Committee, the Ministry of Textile Industries, the State Administration for Commerce and Industry, the State Price Bureau, and the State Technology Supervision Administration jointly issued "Notice on Better Market Control of Sheep Wool and Goat Hair."

20 June. The State Price Bureau issued "Notice on Readjustment of Filature Silk Prices."

20 June. The Ministry of Energy and the State Price Bureau jointly issued "Notice on Problems With 1989 State Plan Electric Power Use, Disposal of Excess Production, and Coal Surcharges."

20 June. The State Construction Materials Industry Bureau, and the State Price Bureau issued "Notice on Delegation of Control Authority Over State-Controlled Cement Packaging Fees."

22 June. JINGJI RIBAO reported that the State Price Bureau and the State Technology Supervision Administration punished four cotton businesses in Shandong and Hebei Province for taking advantage of the shortage of cotton supplies to misrepresent cotton as having a higher grade to raise prices, for causing serious losses through short weighing, for adulteration, and for misrepresenting poor quality cotton as being of good quality, thereby disrupting the orderly flow of cotton. The State Price Bureau and the Technology Supervision Administration also decided to undertake a major investigation of enforcement of cotton procurement and supply prices, as well as quality standards during the last half of 1989.

22 June. RENMIN RIBAO reported that State Statistical Bureau data show that as a result of the relative stability and some decline in major nonstaple food prices during May, the overall price index for staff member and worker living expenses in 35 large and medium size cities increased just 25.2 percent over the same month in 1988, but declined 0.4 percent from April 1989. The price index increased by an average 28.5 percent from January through May by comparison with the same period in 1988. This was a one percentage point decline compared with the previous four months. However, as a result of the rise in prices of raw and processed materials, prices of industrial products used in daily life continued to rise, becoming a major factor in continued high prices.

27 June. JINGJI RIBAO reported that the National Planning Commission and the Ministry of Commerce issued an urgent notice on hastening the allocation and transfer of cotton. The notice said that when purchasing cotton, some jurisdictions paid cotton growing peasants more by making grade concessions. They should act in the spirit of the national cotton production forum that the State Council convened in February 1989, no further investigation to be conducted so long as the benefit truly went to the peasants, but units dealing in cotton should not use the opportunity to seek benefit for themselves. The practice whereby some areas arbitrarily increase prices of cotton shipped from state reserves is to be resolutely corrected.

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#### [Text] July

4 July. The State Price Bureau issued "Notice on Reduction of Fruit and Aquatic Products Receipt and Sales, and Wholesale and Retail Price Differentials For Better Price Control."

10 July. In accordance with a State Price Bureau regulation that "following a rise in the price of silver used in industry, the planning of prices of silver manufactures is to be reported for approval on the basis of jurisdictional authority over prices," the Ministry of Chemical

Industry decided to adjust the exfactory prices of some basic goods, following the principle of absorbing most of the rise and raising prices little. This price adjustment involves 14 different goods, and a price adjustment ranging from 7.9 to 42.86 percent.

13 July. RENMIN RIBAO reported that, according to data provided by the State Price Bureau, the major agricultural means of production price survey conducted throughout the country at spring plowing time lasted from 1 March through 31 May. The survey found a total of 13,788 instances of price violations that produced 86.84 million yuan in illegal receipts. Ninety-five percent of the foregoing cases occurred in business units, and five percent of them in production units.

16 July. RENMIN RIBAO reported that the Ministry of Agriculture Information Center announced the following statistics about country fair prices of 46 different agricultural by-products in 24 large- and medium-sized cities throughout the country: During the first half of 1989, price inflation was markedly less than in 1988. Prices of nonstaple meat and vegetable foods were stable, showing a slight decline in comparison with 1988. Grain and edible oil price inflation was markedly lower than 1988. Regional price differentials between north and south China cities markedly widened as a result of the functioning of the market mechanism.

19 July. The State Price Bureau, the Ministry of Commerce, and the Ministry of Finance jointly issued a document setting forth regulations about 1989 cotton procurement prices and related problems. The regulation provided that supply and marketing cooperatives must make monopoly purchases of cotton, with no use of a two track pricing system.

22 July. RENMIN RIBAO reported that the State Statistical Bureau announced on 25 July that the overall retail price level for the first half of the year for the country as a whole was 25.5 percent higher than for the same period in 1988, largely because of previous causes that have not yet been eliminated. New price inflation caused an only seven percentage point rise in the overall price level.

22 July. The State Price Bureau issued "Notice on the Need For Strict Enforcement of Contract Procurement Prices For Grain and Oil-Bearing Crops."

25. The State Price Bureau issued "Notice on Domestic Pricing of Imported Wood Pulp Covered by Central Foreign Exchange Plans."

28. The Ministry of Energy and the State Price Bureau jointly issued a document on the application of electricity use surcharge standards to cover coal shipping surcharges in the Beijing-Tianjin-North Hebei area in 1989.

#### August

2 August. JINGJI RIBAO reported the statement of the National Price Work Conference that price work

throughout the country during the last half of 1989 will continue the unswerving implementation of the policy and objectives for controlling prices set by the Third Plenary Session of the 13th CPC Central Committee, prices being rigorously controlled. The principle actions to be taken include the following: Strict control of price rises; stabilization of prices of articles needed in the people's daily lives; rectification of prices of basic products such as grain, cotton, and coal, petroleum, and metals outside plan; rectification of commodity flow procedures; correction of transplanted [yidi [2496 0966] price rises]; and better control of rural market prices.

3 August. JINGJI RIBAO reported actions by the State Administration of Traditional Chinese Medicine to rectify the traditional Chinese medicine market, the focus of which is to be on wholesalers. Traditional Chinese medicine wholesale business retail shops, medical treatment units, and pharmaceutical factories are to be under monopoly control of state-owned medicinal material companies, other departments, units, or individuals to be allowed no part. State-controlled traditional Chinese medicine prices need not be approved by the State Price Bureau, and they may not be readjusted unauthorizedly.

5 August. RENMIN RIBAO reported that State Statistical Bureau statistics from 42 large- and medium-sized cities show retail vegetable prices for the first half of 1989 as averaging 84 yuan per 100 kilograms, up 19.1 percent from the same period in 1988.

7 August. JINGJI RIBAO reported that State Council Deputy Secretary Yan Ying [7051 3379] stressed at the National Price Work Conference that there would be no change during the last half of the year in the policy of strict control of prices, nor would there be any relaxation of requirements. Stabilization of prices of daily necessities is to continue, particularly prices of nonstaple foods such as meat, eggs, and vegetables. Prices of basic products such as the "two whites and the one black," (grain, cotton, and coal) are to be rectified. Efforts should be made to stabilize the market price of grain at current levels; the continuing rise in cotton prices must be stopped; and prices of coal not covered by plan must be better controlled at the same time.

9 August. The Ministry of Energy and the State Price Bureau jointly issued a document on the institution of electricity use surcharge standards to cover coal shipment surcharges for the east China power grid.

12 August. The National Education Committee, the State Price Bureau, and the Ministry of Finance jointly issued "Regulations on Ordinary Institution of Higher Education Collection of Miscellaneous Tuition Fees and Lodging Fees."

12 August. The State Price Bureau wrote a letter of reply to the State Import-Export Commodity Examination Bureau, and to the Chinese International Trade Promotion Committee on the readjustment of fee standards for signing and issuing certifications of origin.

14 August. The News Publishing Office issued "Notice on Strict Control Over Book and Periodical Fixed Price Profit Rates."

16 August. RENMIN RIBAO reported that according to data provided by the State Price Bureau Price Inspection Department, during the first half of 1989 price inspection organs at all levels throughout the country investigated and disposed of a total of 363,009 actions and cases of all kinds in violation of the law, and they investigated and dealt with 487.3479 million yuan received in violation of the law. Illegal receipts of 414.1729 million yuan have been confiscated, and fines of 21.8654 million yuan have been imposed. This included the investigation and disposition of 7,165 major cases in an 87.6 percent increase over the same period in 1988.

16 August. JINGJI RIBAO reported that the State Council convened a plenary session at which Premier Li Peng said that no slackening whatsoever would be permitted in stabilizing prices over the next several months. Even more resolute actions would be taken to do a good job of controlling prices. No one may exceed authority to raise prices under state control without approval of the State Council. Violators will be punished without mercy. Prices under control of local governments and enterprises are also to be held, and necessary reporting instituted. The public should also be aroused to exercise supervision. Premier Li said with regard to the price index that, in addition to using the comparison of different periods of 1988 and newly added elements during the current year, beginning in 1989 a price index was added for 47 different necessities and fees for services in the daily life of city and town staff members and workers, thereby placing the emphasis of price controls on stabilizing the basic means of livelihood of residents having medium level or lower incomes.

18 August. The Ministry of Railways, and the State Price Bureau jointly issued "Notice on Readjustment of Railway Passenger Transportation Prices," which provides for an average 112.79 percent increase in ticket prices.

19 August. The State Price Bureau issued "Official Reply on the Approval of Domestic Allocation Prices of Imported Aluminum Ingots."

20 August. JINGJI RIBAO reported that following State Council approval, the State Price Bureau and the State Pharmaceutical Administration recently decided to do more to control and rectify pharmaceutical prices, raising and lowering the prices of some pharmaceuticals.

21. August. The State Price Bureau issued "Notice on Rectification of 'Transplanted [Yidi [2496 0966] Price Inflation' Problems."

21. The State Price Bureau Issued "Written Reply on Approval of Ex-Factory Prices of Aluminum Ingots Made from Imported Aluminum Oxide."



24. The State Science and Technology Commission, the State Tax Bureau, the State Price Bureau, the Chinese Bank of Industry and Commerce, and the Ministry of Materials jointly issued a notice about the national plan for trial manufacture (or appraisal) of new products, including provisions concerning prices as follows: Once the trial marketing period is over, units in charge are to make specific price recommendations within the limits of their price control authority, using prescribed pricing principles. They are to report their recommendations to pricing units for the setting of formal prices.

28 August. JINGJI RIBAO reported State Council issuance of a notice calling upon all provinces, autonomous regions, and directly administered municipal people's governments, and well as State Council units concerned to improve cotton procurement work during 1989 in order to insure fulfillment of cotton contract procurement quotas. They should firmly implement the State Council decision that cotton procurement and dealings are to be a monopoly of supply and marketing cooperatives, and that there is to be no removal of restrictions on the cotton market. Except for supply and marketing cooperatives, (or mandated purchases by fine cotton plants in areas where much fine cotton is grown), no other unit (including Sino-foreign joint ventures) may purchase or deal in cotton. The double track system of prices is not to be used.

29 August. The State Price Bureau, Ministry of Commerce, and Ministry of Finance providing rulings on Xinjiang long fiber cotton prices and associated problems in 1989.

30 August RENMIN RIBAO reported that following a decision by the State Council, the State Price Bureau will conduct a major inspection of prices nationwide from September through December. In addition to continuing to intensify the inspection of prices of basic necessities and fees for important services, the emphasis will be on prices of basic sources of energy and raw and processed materials, including petroleum (and finished petroleum products), cotton, chemical industry raw materials, negotiated prices of grain and edible oil, and timber, and transportation prices.

31 August. The State Price Bureau, the Ministry of Agriculture, the Ministry of External Economic Relations and Trade, and the State Industry and Commerce Administration jointly issued "Notice Containing Views About 1989 Autumn Flood Season Shrimp Price Controls."

#### September

1 September. RENMIN RIBAO reported the statement of State Council Deputy Premier Yao Yilin [1202 0181 2651] to the ninth Meeting of the Seventh National People's Congress Standing Committee on implementation of national economic and social development plans for 1989. Yao Yilin said that retail prices during the first half of the year rose 25.5 percent over the same period in 1988. It is expected that the rise in prices during the last

half of the year will be lower than during the first half of the year. According to data from the State Statistical Bureau, from January through June prices of basic necessities used by city and town staff members and workers throughout the country rose only 1.4 percent over December 1988, maintaining the same basic level as the end of 1988. During 1989, there can be no relaxation of price controls prices under control of governments at all levels, including state set prices and state guidance prices under county level control and below, may not be raised without the specific approval of the State Council. Local governments are to hold the line on prices controlled by enterprises themselves, and institute needed reported systems. They are also to stir the public to exercise supervision. All jurisdictions and all sectors are to continue to intensify market control and price control, emphasis being placed on stabilizing prices of nonstaple foods such as vegetables, daily necessities, and agricultural means of production.

1 September. The State Price Bureau, the Ministry of Commerce, the Ministry of Textile Industry, and the Ministry of Finance jointly issued "Notice on 1989 Cotton Supply Prices" effective 1 September 1989.

2. September. RENMIN RIBAO reported that Wang Bingqian [3769 0014 0051] said in a report to the National People's Congress Standing Committee on 31 August about several major financial problems that price subsidies and loss subsidies are too great, exceeding the government's ability to bear them. The national financial burden for the subsidization of various prices was 31.68 billion yuan in 1988, versus 1.11 billion yuan in 1978 for an average annual 39.8 percent increase. This greatly exceeded the 8.2 percent annual increase in financial revenues for the same period. In 1979, price subsidies accounted for only 6.2 percent of domestic financial expenditures, increasing to 12.3 percent by 1988. Price subsidies and enterprise loss subsidies cost the government nearly 8 billion yuan annually in reduced revenues and increased expenditures. They have reached the point where they must be controlled and cannot continue.

3 September. JINGJI RIBAO reported that following State Council ratification, railroad, water, and civil aviation passenger ticket prices are to be increased throughout the country beginning 5 September. Freight transportation and highway transportation prices are to remain unchanged.

3 September. JINGJI RIBAO reported issuance of a State Price Bureau notice directing all jurisdictions to lower prices on some electric refrigerators and blankets. The notice said that the decrease in electric refrigerator prices was to be held at approximately 15 percent, and that prices of pure wool blankets were to be moderately reduced. Prices of 13 name brand alcoholic beverages remain too high. The State Price Bureau notice directed all jurisdictions to lower their retail prices once again by between 8 and 28 percent.



4 September. JINGJI RIBAO reported that State Council spokesman Yuan Mu [0337 2606], State Price Bureau director Cheng Zhiping [2052 5268 1627], Ministry of Railways Deputy Minister Lu Yunguang [5012 0061 0342], Ministry of Communications Deputy Minister Lin Zuyi [2651 4371 0044], and General Administration of Civil Aviation Director Guan De [4619 1795] replied to reporters questions on passenger transportation fare increases. They called upon news media to expose and criticize instances of indiscriminate price rises, or arbitrary charging of fees "tied in" to these increases. Enforcement units and control departments should conduct rigorous investigations to fix responsibility.

5 September. JINGJI RIBAO reported that on 31 August the State Council notified the governments of all provinces, autonomous regions, and directly administered municipal people's governments that various ministries and committees, as well as various directly subordinate organs of the State Council, would conduct a major tax, government finance, and price inspection during 1989.

5 September. RENMIN RIBAO reported Ministry of Finance, Ministry of Commerce, and State Price Bureau joint issuance of a notice that beginning in 1989 the procurement price per 50 kilograms of standard grade ginned, rolled cotton was to be increased 60 yuan from the 1988 "inverse 3:7" ratio surcharge base, prices of all other grades to be figured on the basis of the previously set grade differential. The procurement price for substandard cotton is to be set by each province, autonomous region, and municipality itself.

13 September. The State Price Bureau issued "Supplementary Notice on File Use Charges."

13 September. The State Price Bureau issued "Notice About Several Fees of Industrial and Commercial Administrative Units."

16 September. The National Education Committee, the Ministry of Finance, the State Price Bureau, and the News Publication Office jointly issued a document providing for price readjustments for college and secondary school teaching materials.

18 September. JINGJI RIBAO reported that on 16 September, State Council spokesman Yuan Mu replied to questions from Japanese correspondents visiting China. Yuan Mu said that the increase in railroad, water, and air passenger ticket prices was deemed to have not very much effect on the overall price level. Readjustment of agricultural product prices mostly followed the moderate rise in fixed contract procurement prices that the state paid peasants, and that these prices were, of course, still lower than market negotiated prices. Neither of these prices would be eliminated within a short period of time.

19 September. The State Price Bureau, the State Planning Committee, the Ministry of Finance, the Ministry of Foreign Economic Relations and Trade, and the

Ministry of Materials jointly issued "Notice on Domestic Pricing Problems For Commodities Imported from the USSR and Eastern Europe," to take effect on 1 January 1989, the date on which foreign trade corporations settle import accounts being used as the standard.

19 September. The State Price Bureau, and the Ministry of Commerce issued a document providing notification about the current cutbacks in parity price sales of grain and edible oil.

23 September. JINGJI RIBAO reported that emphasis during the national cotton planning supply conference that the Ministry of Commerce recently convened was on strict enforcement of state-set supply prices, no unit or individual being allowed to raise prices arbitrarily, or in disguised ways.

23 September. The State Price Bureau, the Ministry of Materials, the Ministry of Metallurgy Industry, and the Chinese Nonferrous Metals Corporation jointly issued "Notice on Firm Implementation of Nationally Unified Maximum Prices for Ferrous and Nonferrous Metals."

29 September. The Ministry of Textile Industry issued "Notice on Prices of Short Polyester Fibers Slice-Produced From Polyester Imported With Central Government Foreign Exchange."

29 September. The Ministry of Construction, the Ministry of Finance, and the State Price Bureau jointly issued "Notice Rectifying Village and Town Plan Construction Administrative Fees."

#### October

4 October. RENMIN RIBAO reported State Council Office issuance of a notice on the handling of Zhejiang Province violations of State-prescribed procurement of spring silkworm cocoons. The notice said that prices of silkworm cocoons and other important commodities bearing on the overall national economic situation, all jurisdictions should take the situation as a whole into account. They should strictly enforce national price policies, and not act unauthorizedly.

4 October. The Ministry of Agriculture, the Ministry of Finance, and the State Price Bureau jointly issued "Provisional Methods of Collecting, Using and Administering Fishing Boat and Fishing Port Administrative Fees."

11 October. The State Pharmaceutical Administration and the State Price Bureau jointly issued a notice permitting no price rises tied to the partial national readjustment of prices of pharmaceuticals.

12 October. The State Price Bureau issued a document stating that the formal exfactory price, and the uniform national sale process of Shanghai Improved Model 760AK and 760B sedans were to be effective 1 October 1989.

15 October. JINGJI RIBAO reported that on 14 October State Council Deputy Premier Tian Jiyun [3944 4764 0061] stressed that the 1989 nationwide major inspection of tax collections, finances, and prices was to deal sternly with violations of law and discipline. For a long time to come, major inspections will also only be intensified, not weakened.

16 October. The Ministry of Commerce, and the State Price Bureau jointly issued "Notice on a Nationally Uniform Maximum Price Limit for Scrap Steel and Scrap Brass Outside Plan For Resmelting."

17 October. The State Price Bureau, the Ministry of Commerce, and the Ministry of Finance jointly issued "Notice on 1989 Retail Prices of Wadding Cotton."

22 October. RENMIN RIBAO reported the decision of the State Council to Increase Cotton and Oil-Bearing Crop Prices in 1990.

22 October. The State Price Bureau issued a document readjusting the distribution price of imported wood pulp under plan paid for with foreign exchange. Following readjustment, the imported wood pulp supply price (meaning the price at which it is supplied to production enterprises), and the price of piaoni [3343 3662] pulp is to be effective 20 July 1989; prices of other kinds of pulp are to take effect as of 1 August 1989.

25 October. JINGJI RIBAO reported that Jin Maoxian [6855 5399 0341], Deputy Director of the State Tobacco Monopoly Bureau, and Deputy Manager of the Chinese Tobacco Corporation replied to reporters' questions about tobacco procurement policy during 1990.

He said that procurement procedures were confused during 1987 and 1988, "tobacco wars" occurring. During 1988, the state lost somewhat more than 1 billion yuan from payment of higher prices resulting from the hiking of tobacco grades. During 1989, improvement of the economic order and rectification of the economic environment was conducted in the buying of tobacco. This is actually not a "lowering of grades for the purpose of paying lower prices." During 1990, we will continue to implement a strict policy of improving the economic environment and restructuring the economic order with regard to flue-cured tobacco procurement, strictly implementing state quality and grade standards, and price policies.

26 October. The China Nonferrous Metals Corporation issued a notice reporting the arrival of the third 1989 importation of copper concentrate. Following study the exfactory price set for products produced from this shipment of concentrate are to be as follows: crude copper, 15,380 yuan per ton; and electrolytic copper, 17,670 yuan per ton. The notice is to be effective from 30 October 1989.

#### November

1 November. JINGJI RIBAO reported that the State Council Office assembled units concerned to draw up six

measures to prevent a major slide in the raising of prawns. These measures included a proposal to ask the State Price Bureau, as well as the Ministry of Agriculture and the Ministry of Foreign Economic Relations and Trade, to recommend floating prices for prawn procurement, each jurisdiction using this as a basis for setting their own fair procurement prices.

3 November. The State Price Bureau published "Provisional Methods for Selling Commodities To Offset Payment of Fines and Forfeitures."

4 November. The Ministry of Communications and the State Price Bureau issued a notice announcing the State Council-ratified "Plan For Increasing Highway Motor Vehicle Passenger Fares."

8 November. The State Price Bureau and the Ministry of Light Industry jointly issued "Notice Increasing the Price of Salt," to take effect on 25 November 1989.

9 November. RENMIN RIBAO reported that during the first month of the major 1989 inspection of tax collection, finances, and prices, 1.48 billion yuan resulting from various violations of discipline has been found, the major inspection thus achieving preliminary results. An officer-in-charge in the Major Inspection Office said that the 1989 major inspection of tax collections, government finances, and prices had two marked characteristics as follows: First, self-inspection was better than in previous years; and second, too lenient treatment has been preliminarily corrected.

13 November. The State Tobacco Monopoly Bureau issued "Notice on Further Intensification of Control Over Imported Cigarettes," providing rules about foreign cigarette importation channels and marketing methods.

15 November. The State Price Bureau issued a notice endorsing the State Tobacco Monopoly Bureau's reported increase in the price of "Golden Bridge" cigarettes, and plans to lower the prices of Winston and Camels cigarettes.

24 November. The Ministry of Metallurgy Industry, and the State Price Bureau jointly issued "Notice on Setting Prices of Refractory Material Products On the Basis of New Standards." The new prices are to take effect from 1 December 1989.

25 November. JINGJI RIBAO reported that following State Council ratification, the retail price of salt is to increase nationwide effective 25 November. In all areas of circulation in which no price differentials exist at the present time, or in which the price differential is too low with regard to salt retail prices in rural markets at the county level and below, regulations require the setting of fair regional price differentials and price differentials between cities and the countryside on the basis of a rational direction of flow.

25 November. RENMIN RIBAO reported that the State Price Bureau announced that during 1989 price inflation

has gradually eased. In October, the retail price index for 35 large- and medium-sized cities nationwide was 7.6 percent higher than for the same period in 1988, and it has receded 23.7 percentage points from the 31.3 percent of January 1989.

30 November. RENMIN RIBAO reported that according to State Statistical Bureau statistics, the rate of consumer goods price inflation in cities and the countryside nationwide during October 1989 was approximately 20 percentage points lower than in January. Prices of fresh vegetables and fresh fruits fell 4.6 and 2.1 percent respectively from the same period in 1988; prices of household electrical appliances of various kinds increased by an average only 2.4 percent, and the rise in prices of daily necessities was also a single digit. As a result of the influence of price factors left over from 1988, cumulative retail price inflation nationwide for the period January through October 1989 was still 20.3 percent.

#### December

2 December. The State Pharmaceutical Administration and the State Price Bureau jointly issued a document raising and lowering prices of some pharmaceuticals and medical instruments. Following adjustment, the prices are to be effective from 20 December 1989.

5 December. The State Price Bureau, the Ministry of Textile Industry, and the Ministry of Commerce jointly issued "Notice on Rectification of Cotton Textile Prices." This rectification is to be adopted bit by bit in a gradual readjustment. New exfactory prices for internal sales are to be effective from 22 December. Prices for external sales are to be effective 1 November. Payments already made are to be credited at the new prices.

8 December. The Ministry of Light Industry and the State Price Bureau of the People's Republic of China jointly issued "Notice on the Readjustment of Some Paper Prices" to be effective from 1 December 1989.

10 December. RENMIN RIBAO reported that the State Council Office recently issued a notice on the transmittal of Ministry of Commerce, Ministry of Agriculture, and Ministry of Finance reports, emphasizing the need to stabilize hog production and to do a good job of supplying pork to markets. This included Ministry of Commerce, Ministry of Agriculture, and Ministry of Finance proposals in the State Council report for the maintenance in all jurisdictions of a fair price ratio between hogs and grain. Guidance procurement prices for hogs during 1990 should be based on circumstances in individual areas and maintained at between 1:5 and 1:55. Guidance procurement prices for lean pork hogs should be higher than procurement prices for regular hogs.

13 December. The Ministry of Chemical Industry, the Ministry of Commerce, and the State Price Bureau jointly issued a notice on the readjustment of ex-factory

prices of open-toed shoes, and light weight shoes. Following price readjustments, the exfactory sales prices are to be effective 28 December.

15 December. The State Price Bureau and the Ministry of Chemical Industry jointly issued "Notice on Raising Central Government Uniformly Prescribed Exfactory Prices of alkali chemical industry [yanhuagong [7770 0553 1562]] and associated products, while simultaneously instituting maximum prices for major alkali chemical industry products such as soda ash and caustic soda produced and sold outside plan."

18 December. JINGJI RIBAO reported that the National Planning Conference and the National Government Financial Work Conference did concrete planning of 1990 economic work. The conferences noted that the entire economic situation is now developing in a fine direction. The degree of increase in retail prices is falling monthly by month; prices of some commodities are even stable or on the way down; and the broad masses of the people are largely no longer worried about price inflation.

26 December. The State Price Bureau issued "Notice on Rectifying Maximum Prices for Silk Spinning Raw Materials, and for Spun Silk Products."

26 December. The State Price Bureau issued "Notice on Related Commodity Price Problems Following Exchange Rate Readjustment."

27 December. JINGJI RIBAO reported that the State Council decided a moderate adjustment of flue-cured tobacco procurement prices during 1990.

27 December. JINGJI RIBAO reported that Premier Li Peng said at the National Planning Conference that market price controls must be strictly strengthened during 1990 to control the extent of price inflation. Increases in prices by units and enterprises themselves are to be strictly controlled. Policies for the fundamental stabilization of the prices of basic necessities that the public uses must be adopted, clear rulings made prohibiting price rises for some daily necessities. A diligent job should be done of looking into all fee collection standards, strictly stamping out and prohibiting indiscriminate increases in prices and indiscriminate levying of fees. The price control objective responsibility system is to be continued. During 1990, control of the degree of rise in prices is to continue to be an important component in the evaluation of all levels of government work.

28 December. JINGJI RIBAO reported that when State Council Deputy Premier Tian Jiyun heard a report on foreign trade work from a responsible official in the Ministry of Foreign Economic Relations and Trade, he said that the foreign trade contracting system would continue unchanged in 1990, and he advocated no change in export policy. It is necessary to do more to control export commodity procurement prices to stop

production enterprises and goods suppliers from using readjustment of the loan exchange rate to raise prices indiscriminately.

### Existing Problems in Macroeconomic Management Viewed

90CE0119A Beijing ZHONGGUO JINGJI WENTI  
[China's Economic Problems] in Chinese No 2,  
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[Article by Yu Jinman (0151 6855 3341) and Weng Xing'ou (5040 2502 7743) of the Fujian Province Planning Commission: "A Humble Opinion About Current Problems in Macroeconomic Management and How to Deal With Them"]

[Text]

#### I

Since reform, along with increased enterprise autonomy and broader local governmental authority, changes have occurred in China's macroeconomic management abilities and models. But the government's delegation of authority certainly has not been able to create a macroeconomic regulation and control system based on indirect control. On the contrary, the delegation of authority and the development of various types of economic mechanisms and market regulations were incompatible, even to the point of serious dislocation, and led to a serious loss of control of the national economy in 1985 and 1988.

The fact that after enterprises and local governments at all levels gained the appropriate authority, we did not promptly construct a macroeconomic management system, has caused serious disharmonies between China's present macromanagement system and economic development. This is exhibited mainly in the following areas:

(1) The principal departments in charge of macroeconomics have had no way of tracing the movement of the economy. The concrete manifestation of this is that when economic movement has shown some irregular signs, they have not taken prompt countermeasures. Even when the problem has become extremely serious, they are often slow in taking steps, missing an opportunity because of delays. For example, at the beginning of last year there was excessively rapid economic growth, currency issues far exceeded those planned, and there was an inkling of credit expansion. Responsible departments did not take countermeasures against these [problems] for a long time. They waited until panic buying appeared, and still some departments believed that the economic situation was basically normal and did not correctly understand "improvement and rectification" measures.

(2) All levels of government and all relevant economic departments are inconsistent and lack a common frame of activity, from guiding ideology and objectives to

disposition of work. Quite a few local governments believe that their own regional economies are insufficiently developed and that they do not need cooling off: rectification is for other regions. Policy objectives also vary widely. Planning departments want to protect key projects and enterprises. Financial departments want to support enterprises with relatively good credit without considering their position and role in the overall economy. An enterprise could be listed as a unit which should receive first-grade support by one department, and yet be turned away by another department.

(3) In mastering macroeconomic methods, major departments with macromanagement duties, such as planning, banking, and finance departments, have no way of playing their proper role, because they function imperfectly. It is quite clear that if these departments want to play their role, they must be able to smoothly operate various subordinate units at all levels. But in actuality, the authority for such substantive aspects of subordinate units as personnel and finances is in local [hands]. When the central government's measures and local benefits run counter to one another, some subordinate units strive to compromise, while others simply side with the locality.

(4) Local governments, compelled by the pressure of "eating" or "demands for achievements in one's official career," often regard local economic development as a "firm duty" and central macroeconomic regulation and control as "soft goals." When conflicts between the two occur, it is quite natural to adopt the former and give up the latter. Therefore, no matter how vigorous central macroeconomic policy is, after it has been discounted through the local layers, ultimately it is generally hard to keep it from becoming "a spent force."

(5) The entire nation lacks a group of out and out "executors" to implement macroeconomic policy directives. The economic situation these last few years has been that when a few regions and units dare to put up a "red light," nobody stops, and as a result [their authority] is cheapened. Induced by profits and competition, most regions and units are afraid of suffering losses and plunge ahead until the central government realizes the seriousness of the situation and has to put a hand in and resolve things. Often this becomes a situation where the "law does not reproach the masses." Because it is very difficult to investigate and affix responsibility, this type of abnormal atmosphere evolves into a mechanism that is very difficult to eliminate.

(6) The self-contradictory performance of poorly functioning and poorly managed finance departments is a principal cause of the lack dynamism in macromanagement. Present-day finance departments, especially banking departments, act as departments controlling state funds on the one hand, with macroeconomic control responsibilities; and on the other hand, they also have profit-seeking inclinations. These two functional contradictions seriously affect banking departments' reliability as implementers of state monetary policy. [The fact that] the reform of the financial management system is incomplete makes the problem even more

serious. First, the Central Bank has changed the mandatory nature of the credit plan, making it only a target for banks to monitor. As far as the scope of special bank loans are concerned, there is no [target to monitor] and moreover no way to control [them]. So, special banks, acting on the profit impulse of "more deposits, more loans," arbitrarily broaden the scope of credit. Second, at the same time the Central Bank recalls special bank secondary loans [zai daikuan 0375 6313 2949], it also increases secondary loans to other financial organizations. The two actions have exactly opposite effects, so they do not have the effect of macroeconomic regulation and control; when the latter is stronger dynamically, it can produce a negative effect. Third, in recent years there has been unchecked growth of finance companies, which has already seriously disturbed the financial order. At present there are already nearly a thousand such companies. These organizations not only do not undertake state policy loans, they also compete with banks for deposits, resulting in a great decrease in sources of credits and funds for special banks in recent years. Thus, the Central Bank is forced to increase the money supply to make up the credit balance, thereby intensifying inflation.

(7) [Giving] localities at all levels financial responsibility has a divisive and impeding effect on the central government's macroeconomic management. After they assume financial responsibility, governments at all levels actually become independent profit entities. Moreover, relative financial independence has the effect of increasing selfishness. So, financial responsibility carries with it the capability of governments at all levels to directly control the growth rate of part of the economic benefits and the local economy's actual strength, further increases local governments' independence, and motivates them to seek the most rapid financial growth possible. With financial responsibility borne [locally] in the last few years, localities already control considerable financial resources, which has caused the central government's share of total financial revenues to fall to less than half. Various local administrative levels are constantly growing stronger and contending for strength with higher administrative levels. Thus, after passing through several divisive and obstructive levels, the dynamism of central macroeconomic management is already greatly weakened or even deformed when it reaches the enterprise. Moreover, every macroeconomic regulation and control measure cannot help but influence the specific regulations of those [units] responsible for finances. So, they often meet with open or hidden resistance.

## II

Faced with the above problems, last year China began carrying out improvement and rectification. Its guiding ideology is: "firing the five-barrel salvo" of economic, legal, and disciplinary measures, ideological and political work, and administrative measures. Because these measures are not consistently coordinated with macroeconomic management systems, and furthermore have not been formed into structured and ordered standardized regulation and control mechanisms, they quite

naturally result in a situation where "economic measures are not very effective, legal measures are not strong enough, disciplinary measures cannot be stiffened up, and ideological and political work is impeded." Only administrative measures, because they can have a rather direct affect on the retention or dismissal and promotion or demotion of government and department leaders, give people the feeling that "this method alone is most effective."

Are administrative measures really the most effective? We believe we should make a concrete analysis. In the period of improvement and rectification it has no doubt been necessary to implement quite a few administrative measures. But we should look at whether these administrative measures could be only treating the symptoms but not the disease, and whether they only have a short-term effect. There is currently a tendency to exaggerate administrative measures for improving and rectifying the economy. Quite a few of the measures are actually excessively rigid and are often "indiscriminately" implemented. For example, last year the State Council transmitted a notice to lower levels on controlling credit and stabilizing finances. Even though they emphasized that [some units] should be protected and other [units] controlled, it was hard to implement, and as a result it was indiscriminately implemented. As another example, the original reason for reducing capital construction was to cut down on large buildings, surplus products, duplicate construction, and other irrational projects in order to reduce aggregate demand. The actual result was that, in order to meet the reduction quotas set by higher authorities, some [units] hastily threw together several projects, some of which still had funds on the books and some of which simply had no funding. Then they cut off these projects that were not started in the first place. Thus, the necessary reductions were completely guaranteed and the reduction quotas set by higher authorities were 100 percent fulfilled.

Some people look only at the fact that administrative measures are convenient to use and take effects quickly. Based on this, they believe that to strengthen macroeconomic management we should again concentrate power with the central government. We should broaden the scope and proportion of the central government's direct investments and have it manage all major projects. On the surface this would appear to be advantageous to the overall balance of the national economy and to integrating projects, and thus advantageous to achieving the best economic performance. But the facts prove to be quite different. First, in order to ensure that the central government's projects are completed on time, it is necessary to order enterprises [to supply] the required equipment and materials, enjoining them to supply the products at a low price, which is a disguised way of subsidizing construction. This inevitably impedes market development. Second, in order to guarantee the foreign exchange required for key construction projects, it is necessary to continue implementing foreign trade and foreign exchange controls, pooling a large amount of

foreign exchange with the central government. Because foreign-exchange-earning enterprises are unable to get foreign exchange to replace their equipment, their enthusiasm for earning foreign exchange necessarily suffers a setback. This makes it very difficult for foreign exchange earnings to gradually snowball.

In addition, a look at the comparative financial power of central and local governments shows that there is no way to again tread the old path of centralized authority. After the separation of central and local finances, the central government's share of total financial revenues fell from just under 90 percent to less than 50 percent, with a trend toward further reduction. Total financial revenues, which [formerly] made up about 30 percent of the national income, have already fallen to 18 percent. When there are many economic sectors, demanding that financial revenues again make up 30 percent of national income and that the central government's financial revenues make up 70 percent of total financial revenues is not only unrealistic, but also possibly harmful. Looking at the central government's present financial resources, one feels that in guaranteeing the current level of construction projects their ability does not equal their ambitions and, in the last analysis, they will still need to depend on expanding budget deficits to resolve them. Further expanding the scope of the central government's total control is easier said than done.

But the present emphasis on using western macroeconomic management methods to solve China's current problems with its macroeconomic management system also will not work. [These methods include the following:] 1. Using inflation and budget deficits to increase the central government's financial resources and thereby enhance the dynamics of macroeconomic control. Those who support this believe "appropriate levels of inflation and budget deficits are advantageous to economic growth," and that inflation can be used to centralize key construction funds. Because inflation is accompanied by price increases, it can absorb part of the excess consumer purchasing power and thereby raise the proportion of real accumulation; so budget deficits directly reap funds for central government projects. Provided that these funds are used to resolve structural contradictions, they can slowly get rid of inflation caused principally by structural factors. But this reasoning certainly has not been borne out in practice in China, because it contains two false premises. The first is that bottlenecks in key construction projects can ultimately always be eliminated, thereby increasing effective supplies. Looking at China's long-term capital construction, communications and energy bottlenecks are almost never eliminated, and with bottlenecks created by raw and processed materials, "before one wave subsides, another washes up." Therefore, effectively resolving structural contradictions through key construction projects has been exaggerated. The second [false premise] is that China's inflation is mainly caused by structural factors. Actually overall demand has far exceeded overall supply in recent years. No doubt there are structural causes, but parallel expansion is no less important. These [facts] can be clearly seen

from statistical data. 2. Advocating "controlling currency and freeing up prices." However, there is a great difference between the functions of China's banks and those of western banks. Although China has greatly expanded its monetary functions by drawing on its experience managing foreign currency in recent years, from the point of view of microeconomic activities of banking organizations and enterprises, we still have not gone far enough, and cannot be equated with market economy countries. When it comes to macroeconomic policy, almost all Chinese banks take orders from the government and cannot preserve a strong currency. The Central Bank in particular is actually a bank for allocating credit. Neither the Central Bank nor the special banks have financial regulations that cover the whole society; their plans and controls only affect the national banking system. Judging from the actual situation in recent years, excessively rapid growth in production and investment has consistently been the main cause of excessive currency growth. In addition, only 55 percent of last year's credit expansion was actually controlled by the four large national banks. It is obvious that without thoroughly changing the current microeconomic base and the macromanagement system, it will not be possible to escape from the "overtake and pass" circle. If we do not get rid of the "overtake and pass" economic model, currency issues cannot really be controlled. And as long as the currency is still not controlled, freeing up prices can only result in cyclical increases in the cost and price of products.

Ten years of reform prove that it is unrealistic to make the transition from a macroeconomic regulation and control system which has previously used direct control to one based upon indirect management in a short period of time. There are three reasons for this. The first is that our prices are seriously out of kilter, and freeing up prices on a large scale would be restricted by a great many external conditions and would be difficult to accomplish in a short period of time. The second [reason] is that enterprises lack self-restraint mechanisms. Simple, easily-implemented reform measures (such as interspersing the contract responsibility system with public ownership) have all been tried, but none were able to get rid of this chronic ailment, and privatization does not suit China's national character. The third [reason] is that the banking system has no way of becoming a competitive enterprise independent of the government within a proper period of time. Thus we can see that currently our greatest problem is not how to realize the objectives and models of economic reform (although there are still differences on this question). Rather it is how we can establish an economic system which both guarantees the enthusiasm of microeconomic organizations so that economic reforms progress, and which can also change the chaotic macromanagement so that the central government can effectively regulate and control the direction of economic development, the industrial structure, and income distribution. With this in mind, we propose the following:

1. We should take adjustment of the industrial structure and formulation of industrial policy as the main line for coordinating macroeconomic management departments at every level. It appears that enterprises are the object of industrial policy, but actually any adjustment in industrial structure or implementation of industrial policy can influence government interests at every level. Enterprise development and investment distribution are tied to local governments in myriad ways. The size of the gross output value in particular directly influences local governments' financial revenues. Therefore, the central government can regulate and control the local economy by adjusting the industrial structure and formulating industrial policy. Higher-level local governments can also use this method to influence lower-level local economies. In order to avoid going back to the old way of excessive centralization of power, when the central government formulates plans for adjusting the industrial structure and industrial policy, it should adopt a method of full consultation, with these concrete steps: First, central and local governments [should] draw up preliminary programs for industrial structural adjustment and industrial policy separately, based on their own goals. Second, the central government [should] investigate to see if the two conflict on their goals, orientations, and principles. If there is no conflict, they can formulate a general distribution, separating and giving local matters to local governments. Third, if there is a conflict between central and local governments, then the central government, based on the nature of the difference, such as the reasonableness of the local stand or the damage that implementing the general objectives would entail, [should] decide the amount of concessions that each side must make, and finally divide it up on a generally agreeable basis. Fourth, local governments should formulate local industrial policy and programs for adjusting the industrial structure which are within their established scope and orientation, and submit these to higher authorities for approval. Industrial policies and programs for adjusting the industrial structure have already been promulgated; it is necessary only to give them legality and determine and verify the relevant order of implementation for each department.

2. Large enterprise groups and large stock companies should be the principal targets of macroeconomic regulations and controls. This is because large enterprise groups and large stock companies are rather heavily concentrated in production and they have a rather large share of the market. If they are controlled, then the direction of national economic development will be controlled and the development of the total economy will be orderly. Presently there is a certain basis for the horizontal integration of enterprises. If the government forms various sets of policies, we can look forward to the formation of a batch of large enterprise groups and large stock companies in a number of years. When the time comes, the central government's macromanagement measures and production plans will mainly target those large enterprise groups and large stock companies with

national influence, while local governments will principally target large regional enterprise groups and stock companies. This method can avoid the past interference of rigid mandatory planning, and can also extricate us from the predicament of dynamically weak, current direct planning. Thus, we can find a concrete, manageable model where "the state regulates and controls the market and the market guides the enterprises."

3. Macroeconomic management measures should be diversified and should follow microeconomic improvements, thus gradually enhancing the position of economic measures. Required administrative and disciplinary measures, and ideological and political work certainly cannot be abolished, but in the long-term view, legal and economic measures should become the principal means of macroeconomic management. The present wide-scale adoption of various types of administrative measures, whether as means or procedure, should be improved on. We must be concerned about their proper limits, especially so that they conform with the direction of reform of the macroeconomic management system. Otherwise, it could result in "the destruction of good and bad alike," influencing the soundness and the stable development of the entire national economy.

#### **CASS Economic Group Discusses Reform During Rectification**

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[Article by the CASS [Chinese Academy of Social Sciences] Economic Situation Analysis Small Group: "Some Thoughts on Deepening the Reform Process While Promoting Rectification and Improvement," presented by Liu Guoguang (0491 0948 0342) and Zhang Zhuoyuan (1728 0587 0337) and written by Dai Yuanchen (2071 0954 2525), Du Haiyan (2629 3189 3601), Xin Wen (1822 2429), Guo Jingang (6753 2516 0474), and Zhong Jiying (0112 3444 0995)]

[Text] Rectification and improvement and reform go hand in hand. Rectification and improvement make it possible to implement further reform and to achieve sustained, steady, and smooth development. But we must also realize that if we have to rectify the disorderly economic activities and readjust the distorted economic structure once every few years, it will hamper the normal progress of reform and development. What is particularly noteworthy is that in all socialist countries, including China, the absence of a comfortable economic environment has been a common stumbling block to the restructuring of the economic systems. So far as China is concerned, we have faced macroeconomic chaos three times during the reform of the last 10 years. Expansion—contraction—re-expansion seems to be the normal economic process in China. How can we keep the economy from overheating, moderate the economic fluctuations, and create a more comfortable economic environment to facilitate reform?



### I. The Deep-rooted Causes of the Present Economic Troubles

There are many causes to the present economic predicament. First, it has much to do with the erroneous economic guiding ideologies and policies. Since the Third Plenary Session of the 11th Party Central Committee, we have begun to shift the economic development strategy "from externally-driven to internally-induced, from quantitative to qualitative, and from extensive to intensive growth." But in reality this shift in development strategy has been far more difficult than first anticipated. We can say that to date, China not only has not changed her economic development strategy but has very much stuck to the pattern of her traditional strategy, and this has enabled concepts which ignore economic efficiency, which aim to triple the output value at all costs, and which suggest that "a little inflation is good for economic growth" to take hold. However, during the present rectification and improvement, once we realized the errors in those guiding ideologies, we quickly corrected them. We have put the excessive investment and social consumption under control and have cooled the overheated economy, and in some ways, we have also curbed the chronic inflation. This demonstrates how important rectifying the erroneous guiding ideologies is to improving the economic environment.

Faced with the recurring strange circle of "expansion—contraction—re-expansion" in China's economy, however, it is not a very convincing theory, nor does it help China's economy to rid of its recurring problems, to attribute everything simply to the erroneous guiding ideologies. There are some factors imbedded deep in the system that cause the economy to overheat and the total demand to expand again and again. In particular, if we analyze the most recent two periods of macroeconomic chaos, it is possible to separate the institutional factors which cause the economy to overheat and the macroeconomic environment to deteriorate into three types: Prototypical factors innate to the traditional system; associated factors that accompany the transition to a new system; and retrograde factors due to reform errors. All three types of institutional factors are directly related to the reform, but their economic characters have little in common.

First, China's traditional system coincide with her traditional economic development strategy. Basically, it is a system that aims for quantitative economic growth. From the point of the organizational traits, the making of every microeconomic decision is closely linked to a government organ, and to different degrees, all decisions reflect the government's intent. From the point of the way economic performance is assessed, quantitative economic growth is encouraged in several ways, and consequently, it has produced a whole generation of administrative cadres and business managers who are devoted to the promotion of the traditional strategy. From the point of the system of constraints, efficiency has never been recognized; "soft budgetary constraints"

have lowered the decision-making standards, encouraging people to go after economic input regardless of the consequences. None of these institutional traits have changed despite reform; on the contrary, during reform, we have introduced several new stimulants, such as financial contract, profit tax contract, foreign exchange contract, and wage-profit linkage, which entice enterprises with profit and cause the overheated economy to further deteriorate. Thus, the recurring economic chaos is an institutional phenomenon.

Second, China is not trying to restructure the economic system in one step. Co-existence of two systems is inevitable. At the initial stage of the dual systems, the regulation and control functions of the traditional system of planning are intact, and bringing in the market regulation mechanisms under the circumstances can enliven the economy and promote economic growth, because we are in fact taking advantage of the merits of two major economic systems. But as reform moves forward and the traditional system of planning disintegrates, the old macroeconomic regulation and control measures begin to stall, the economic system itself becomes less systematic and more fragmented, and new and old systems alternate in the many links of the economic circuit. In this state of anarchy where there is total economic chaos, we will also find that central planning can no longer control the speed [of growth], determine the [economic] structure, or ascertain results. Meanwhile, the economy's soft budgetary constraints are still working, which prevents the market mechanisms that are based on well-defined property rights from playing their regulatory role. As a result, the two systems are in each other's way, the economic behaviors are unrestrained, supply contradicts demand, and the structure loses balance. This is followed by a decline in efficiency. By this time, we are plagued by the defects of two major systems. Thus, to a large extent, the present economic chaos is an inevitable phenomenon during the transition period. If we are looking for an unmistakable sign that marks the beginning of this period, when the most important economic order of the traditional system falters, or more specifically, when mandatory planning no longer can perform its regulatory functions, it signals the beginning of the most difficult period of the dual-track system. We therefore can conclude that the present economic predicament is directly attributable to the existence of the dual systems.

Finally, certain systems which have been installed during the economic reform process may deviate from the course of reform because they are inspired by the old thinkings, or, since they were intended to be temporary measures necessitated by short-term policies, they may be effective in the short-run but have become increasingly ineffective in the long-run and may even produce negative effects as time goes by. Since we lack the essential countermeasures to replace those highly transitory systems, we are forced to let them "rot" as they are assimilated into the traditional system. For example, in the early days of China's economic reform when theories



were being discussed, we noticed the recurring cycles where "tightening always meant rigidity and easing always brought chaos," and in reviewing China's past experiences, we suggested that we should stop going around in circles over the issue of how to apportion power between the central and local governments and that we should put the emphasis on modifying the relationship between the state and enterprises.<sup>1</sup> But realistically, we cannot deny that reform has once again gone into another centralize-decentralize cycle. The deep-rooted cause of this kind of conscious and subconscious choice warrants further analysis. No doubt, our reform choices run contrary to the design of the overall reform plan.

Overall, the deep-rooted cause of the present economic predicament lies in the loss of balance and the deviations in the development of the system. If we want to remedy the situation, besides making a continuous effort to rectify the guiding ideologies, the only way out is to further the reform process and install a new system expeditiously. In this sense, during the early phase of rectification and improvement, it stands to reason that we should focus on correcting the guiding ideologies which aim for quick success and instant profit and that we should implement a tight policy and restore some of the traditional macroeconomic regulation and control measures. In this way, we may temporarily ease the economic conflicts. In the long-run, however, this is not a permanent solution; it does not eliminate the institutional basis which will cause China's economy to falter again.

## II. The Negative Effects of the "Economy of the Feudal Lords" on China's Development

Whether emotionally we want to accept it or not, we must admit that after a decade of reform, in some sense, China's economy has turned into an "economy of the feudal lords" in which local governments are the basic decision-making entities and hubs of economic functions. This is attributable to the fact that the reform has started another centralize-decentralize cycle. In the process of reform whereby authorities and profits are handed down to the lower levels, public finance as a percentage of national income has dropped to 19.2 percent; the central government's fiscal income as a percentage of total revenue has fallen from around 55 percent to around 45 percent. Meanwhile, the financial power amassed by enterprises after the implementation of the system of profit retention is slowly eaten up by the ever-increasing "surtaxes." Moreover, enterprises' business activities are in fact orchestrated and governed by the local governments. Such a financial structure only demonstrates that local governments are the principal beneficiaries of the decentralization process.

Of all the reform measures to expand the rights and privileges of local governments, the apportionment of administrative power, which centers around the local government financial contract system, is the most significant. If we trace the background, this measure was

introduced at a time when the central government was facing serious financial difficulties and was adopted as an emergency measure. But once a system is steered in a certain direction, the change somehow becomes permanent. In particular, once the local governments get their hands on more financial power, they have a strong urge to get involved in the local economic development process. The local governments are driven by the economic profit motive, and it is difficult to prevent them from grabbing and holding on to the rights and privileges handed down by the central authorities as well as taking over some of enterprises' rights and privileges. The local governments' total involvement has made financial contracts the focal point of supply-demand conflicts and structural contradictions as well as the bottleneck that retards and obstructs reform.

Aiming to increase the income at their own disposal, local governments fight over investments, projects, loans, and resources and compete with one another to increase investment. They have become the main contributor to the bloating investment scope and the culprits behind the overheated economy. Moreover, misguided by unreasonable prices, distorted price ratios, and market profit, local governments invest massively in the "short, level and speedy" projects. As a result, energy and transportation and other infrastructure are weakened and the raw material industries are underdeveloped; meanwhile, the processing industry is over-expanded and redundant investment and cut-throat competition have become a serious problem. Economies of scale, structural efficiency, and efficiency in the combination of key factors of production are declining steadily, and the imbalanced economic structure further deteriorates amid the overheated development which we tried in vain to curb.

Not only that, but the local governments' ever-increasing benefits have become an institutional obstruction that diminishes the effects of rectification and improvement and obstructs efforts to deepen the reform. Repeated attempts to tighten the economy and compress the overheated air have not succeeded mainly because the local governments (which of course also include the various departments) act in their own interests only and, based on past experiences, behave in a way contrary to policy expectations or counter to the policy intent. They have adopted a wait-and-see attitude toward rectification and improvement and are hoping that the tight policy will be changed one day; they do not want to have to make any sacrifices. They worry that active enforcement of the tight policy will only rob their regions of their share of the benefit. Therefore, narrow local interests are the main factor interfering with the rectification and improvement tasks. At the same time, in an effort to protect their own interests, local governments put up regional barriers, obstructing the formation of a unified market, and one after another, they stage the "cocoon war," "wool war," and "cotton war," which aggravate the shortage of resources and ruin the possibility of optimal allocation of resources. The local governments'

efforts to make a profit out of dual-track pricing retard the growth of market organizations and hamper the development of market mechanisms. As a result of the expansion of the local governments' rights and privileges, the traditional system has shrunk, which turns out to be the main institutional basis of today's developmental and reform predicament.

The local governments' involvement also puts the macroeconomic regulation and control measures out of action. In particular, the tax lever and monetary regulation and control measures can no longer do what they are supposed to do. With the implementation of the local financial contract system, raising taxes on the overabundant industries and products not only fails to slow their growth but stimulates their development even more, because in the process local governments can increase their share of retained profit. Meanwhile, because of the local governments' intervention, the sector most affected by the macroeconomic regulation and control policy which aims to tighten the money supply has turned out to be industries that produce goods that are in short-supply and are controlled by the central government. This is because the local governments take good care of the local industries in order to guarantee their revenue. Thus, whether we want to admit it or not, the reality is, China's economy is "torn apart by feudal lords." This not only has very negative effects on the immediate economic development and reform but will also effect noticeable constraints on future developments and reform.

### III. Possible Limits To the Chinese Macroeconomic System's Shift To Indirect Regulation and Control

The basic characteristic of the traditional economic system is the state's direct control of enterprises' production and management activities. The resulting defects are well-known. Several decades of complications and mistakes later, we have finally come to acknowledge that China's economy cannot function without the intervention of market mechanisms. No doubt, market-oriented reform on the whole is a form of indirect regulation and control. This is significant to the socialist reform. Since reform, as we experiment with indirect control and regulation, China has been at the leading edge of socialist economic reforms. But leading edge does not imply success; moving forward with reform does not preclude successful reform.

A reform objective is to make the market the intermediary that links macroeconomic policies to microeconomic activities. Enterprises in general will have to follow market signals and make their independent long-term and short-term input-output decisions. Under this format, the market becomes the intermediary between government and enterprises and between enterprises themselves, and together they will form an organic whole. If our ideal indirect regulation and control model is to work, we must have a bona fide market. But China's reform was launched in an arena where the commodity

economy was underdeveloped. China attempted to promote market mechanisms in selected sectors and links at different pace, hoping to use the experience of selected points to eventually build a complete market system, a system that would include market parameters that reflected the structure of scarce resources and market entities which not only were capable of competing in the market but were also capable of controlling their competitive behaviors. But after a decade, we are still faced with a fragmentary market far too inadequate to meet the requirements of indirect regulation and control. It is this substantive problem that poses an insurmountable obstacle to China's attempt to change economic mechanisms.

(1) Market defect number one: Unreliable price signals. Plagued by supply-demand conflict and structural disequilibrium, China has been unable to move forward with price reform. Several price reform programs were aborted prematurely. Despite careful calculations and the huge operating cost (such as increasing policy-mandated subsidies,) in the face of inflation driven by supply-demand and structural conflicts, the price adjustment efforts appear inept. Not only has little been achieved in the readjustment of the unreasonable price relations, but the effort has resulted in making other price ratios unreasonable. So long as the market signals are distorted, it is obviously unrealistic to ease macroeconomic control in hopes that the market will regulate and constrain enterprise and local government behaviors. It is exactly because we have never given this point careful and thorough consideration that we keep repeating past mistakes in our reform thinking and design and continue to create new conflicts during reform. For example, when most input prices were rising, the government had hoped that enterprises' internal digestion could prevent output prices from following suit. But in the absence of outside competitive pressure and internal restraining mechanisms, enterprises relied on instinct and passed on their losses and tried to make a profit out of the price differential. Survey of 56 state-owned enterprises in Jiangsu's Zhenjiang City showed that between January and June of 1988, higher raw material prices raised cost by 42 million yuan but higher product prices increased revenue by 48 million yuan; 114.3 percent of the cost was passed on to the consumers. When the practice of passing on higher costs becomes prevalent, in order to maintain market order, the government often resorts to price control. But driven by the measure-countermeasure mechanism, enterprises in turn will find ways to evade the government's price control. A typical route enterprises take is to make structural changes and come up with new products. As a result, the production of controlled products shrinks as production of non-controlled products expands. The supply-demand gap widens and the imbalanced structure becomes even more imbalanced, producing a vicious cycle where the more scarce the goods, the tighter the control, and the tighter the control, the more scarce the goods. Of course, when the price signals are distorted, not all enterprises manage to make money. When the

government makes mandatory purchases and sets the sales price in hopes of stabilizing the market, enterprises are sacrificed for the sake of price stability. At such time, enterprises will have to expend energy on bargaining with the government on a one to one basis; "instead of looking for market, enterprises seek out the mayor," and unwittingly, they once again become administrative appendages.

(2) Market defect number two: Unruly competition. Because of uneven market developments, whether there is some kind of price mechanism or price relations between two products or between a product and its means of production, they are always out of line. Haphazard, contingent, and reckless administrative interventions as well as disparities in fund share, personnel qualifications, and geographic location have led to unfair competition. China's market organization has always had a strong administrative overtone; the market is more a dependent than an independent entity. Since reform, enterprises that compete in the market have kept their old identity; they still follow the traditional behavioral rules. Rigid administrative stratification stamps all competitors with an extraeconomic brand. If enterprises desire a place in the market, they must find a powerful government organ or high-ranking official to back them. This is true not just for the large- and medium-sized enterprises; even economic entities newly separated from the administrative ranks are speechless and helpless when faced with the unruly market and are forced to return to the government's embrace during a recession. In a disorderly market, companies of different status and background ignore all rules of market transactions and minimal credibility and launch cut-throat competition to capture market shares and go on to engage in arbitrage and speculation and endless price gouging. In particular, in the grey market where scarce commodities are exchanged, driven by kickback, rebate, and commission, market prices are confusing and soaring. Meanwhile, shortages in the open market are exacerbated, so that even those commodities which did not have a serious supply-demand problem are hard pressed. The more underdeveloped the market, the more prevalent the nonmarket exchanges, rendering it impossible for a bona fide market to develop properly. Once again, old-fashioned commodity exchange where 20 yards of burlap fetches one sheep has reappeared as enterprises "barter for goods."

Market [dis]order and inflation are natural companions. During sustained inflation, price divergence gathers speed in the market, lowering the buyers' awareness of the price parity structure, limiting their freedom to search around, and putting them in a disadvantaged position in the market. Meanwhile, the sellers have more freedom to adjust prices and seize the upper hand in the competition. When this situation becomes widespread, it creates a one-sided market monopoly and aggravates the already distorted prices. Once the buyer and seller have pushed negotiations to the limit, all basic rules, including equality between two parties to an exchange, the

exchange of equal value, and equal opportunity for competition, will have no meaning, and words like "let the market guide enterprises" will only be words. In this highly disorganized market where administrative rules prevail and which in many ways has even retained the traditional feudal overtone, most people will find it ridiculous to talk about indirect regulation and control of the economic entities. Thus, whether one agrees that enterprise reform is essential to market reform or not, one must accept this reality: We do not have a market which can provide the necessary conditions to change the macro control system. Practice proves that the attempt to restructure China's economic system to an ideal mold overnight while ignoring the reality of the country's market development will only be frustrated, and haste only makes waste.

Let us take a step further and assume that the market is fully developed. Even then, indirect macroeconomic regulation and control cannot be 100 percent. In fact, in any society with a commodity economy, there are always some sectors where market exchange of equal value and the principle of market profit simply do not work. The long-term, stable development of a society requires not only the market's dynamic system to solve the problem of economic efficiency but also society's stabilizing system to bring social justice and stability. When these two systems are served by different kinds of enterprises, we naturally will have two different types of enterprises. That is why China's market-oriented reform does not make all enterprises join in the market competition.

The restructuring of the economic system began by giving enterprises more decision-making authorities, hoping that the market mechanisms will help increase enterprise vitality. But this effort was faced with profound contradictions from the start. While the government's objectives are diverse, enterprises, once allowed to seek profit, have only one goal. The government, which transcends individual interest groups, has more than one socioeconomic goal. It must preserve economic growth, satisfy social demands, provide social benefits, and guarantee social equality and order. To meet the above goals, the government uses economic means, administrative means, and legal means to adjust our economic life indirectly, and meanwhile, it must more or less get involved in the production sector, that is, the government must set up its own enterprises. In this sense, state-owned enterprises are the extension of the government's functions to the economic domain. For this reason, the government's multiple objectives naturally filter through to enterprises, and the government's interventions in enterprises are the manifestation of such infiltration. This kind of intervention is visible not only under a planned economic system; even in a capitalist country where the commodity economy is very well developed, so long as the government believes that it should hang on to its enterprises, it will supervise and manage the state-owned enterprises very closely.

Obviously, it is very difficult for any enterprise to try to support the government's multiple goals and to fulfill its

own profit-making goal at the same time. Of course, we do not rule out the possibility of some enterprises helping the government achieve its goals while making a profit at the same time. But theoretically, such possibility is only incidental; the impossibility however is certain. If the government still insists that state-owned enterprises take responsibility for their own profits and losses, we can imagine the consequence. Enterprises can use supporting the government's macro objectives as excuse and refuse to take responsibility for their losses, or, impelled by their own profit considerations (such as hoping to boost their wage fund,) they may find ways beyond the government's control to balk at their obligation to the government. For example, under dual-track pricing of capital goods, enterprises sometimes may fight for mandatory planning, because once they get their hands on government-supplied, parity price raw materials, they will be able to meet all of the government's demands when entering into a contract, and when the job is done, the loser often turns out to be the government. According to the State Statistics Bureau, the 1988 the supply-contract fulfillment rate of products under the state's mandatory allocation plan has fallen to a 10-year low. Although the decline is due partly to a shortage of means of transportation and inability to guarantee raw material and energy supply, the main cause is still enterprises' effort to take advantage of the price differential between planned and extra-plan products and to shirk their obligations to the government. This proves that some enterprises in society should not be a part of the profit-maximizing competition but should accept the state's direct regulation and control instead.

#### **IV. The Core of the Macroeconomic Reform Is To Find the Best Structure That Combines Decision-making Rights and Market Mechanisms**

When the CPC Central Committee's decision on restructuring the economic system was ratified in October 1984, China's reform turned from the rural to the urban areas and began a round of urban structural reform which focused on invigorating enterprises. The reform which centered around devolution of decision-making authority and yielding of profit not only brought sweeping changes to the enterprise system, it also led an all-out assault on the traditional system, causing its gradual disintegration while ushering in an era of the dual systems.

No doubt, devolution of power and yielding of profit mobilized the people's enthusiasm and unleashed the productive power in the publicly-owned enterprises which had long been fettered by the administrative system. But after an initial, benign period, decentralization soon began to stimulate enterprises' shortsighted behavior and eventually led to macroeconomic chaos. What brought on this phenomenon? It probably has to do with the devolution of power and yielding of profit which were carried out recklessly and at all costs. We have discovered that the process of devolving power and yielding profit is not like what people imagined. There is

no clear scale distribution where large enterprises receive less power and small enterprises receive more power. Nor is there a structural distribution where good market conditions warrant less power and poor market conditions warrant more power. To a large extent, it is a random process with no definite basis. But this is only the actual outcome of decentralization. In the early days of reform, a sweeping suggestion in fact was made to base the devolution process on how relevant the individual products were to the national economy and the people's livelihood as well as on how much individual regions contributed to the central government's coffer. Decentralization was supposed to proceed relatively slower in enterprises which produced goods with direct impact on the economy and the people and regions that contributed more to the central government's fiscal revenue. The intention was to preserve the central government's strength to apply regulation and control at the macro-economic level during the transition to a new system. But it was a very unscientific line of thinking, and in practice it produced many negative regulatory effects. The more crucial the products were to the economy and the people (such as grain, cotton, oil, energy, and raw material,) the less likely they would be priced according to supply and demand in the market, and therefore the relative advantage of producing those products was clearly lower compared to other products. As a result, under market regulation, the production of those products began to shrink. Similarly, the more a region contributed to the central government's coffer, the less it could afford energy resources and raw materials at market prices, and consequently, the economic growth of such region was slowed and its contribution to fiscal revenues began to decline. In essence, the original concept of devolution can be likened to draining the pond to catch the fish.

A further problem is, as the market develops and the comparative advantages erode, what power the central authorities are still hanging on to is distorted by the profit motive. The most typical example is, when mandatory planning is whittled down, the few mandatory plans left have lost their clout. Fewer and fewer of them are being fulfilled each year. Not only that but many elements in the traditional planned system have undergone obvious changes. In the initial distribution of the national income, the central government's share of fiscal revenue has decreased sharply. In 1988, statistics show that the state's fiscal revenue as a percentage of the national income distribution has dropped to the lowest point since the founding of the PRC. In the wake of decentralization, funds have become increasingly dispersed: Domestic fiscal income has grown from 112.1 billion yuan in 1978 to 258.8 billion yuan in 1988, just about doubling; but during the same period, extra-budgetary income has increased by 5.5 times, from 34.7 billion yuan in 1978 to 227 billion yuan 1988.

Thus, comprehensive decentralization has reduced the scope of planning in all economic activities, and some

market mechanisms have developed, and these conditions have quickly developed into a two-system situation. However, the sector which is controlled by administrative planning is no longer a unified sector. With the introduction of such reform programs as eating out of separate financial pots and enterprise contracting, enterprises which have been put under planned management have developed their relatively independent economic interests. Therefore, on the surface, there is still a unified system of planning, but in the actual economic process, this system has been carved into layers. What is noteworthy is, today many socio-economic activities have drifted away from the grips of the planned system, but many of the enterprises involved are relying on their special relationship with the government to create a unique status. They have avoided the constraints of the planned system; at the same time, they are not subject to the discipline of market competition. As a result, they have become special "citizens" in our socioeconomic life. In turn, because of the involvement of government departments and because of various non-economic factors, the newly developed market mechanisms are faced with all kinds of trials and tribulations from the start. The most serious among those problems is the lack of regular order which has produced a kind of no-man's-land where neither planning nor the market is in charge. This clearly can be blamed on the macroeconomic reform sequence.

So far as the sequence of macroeconomic reform is concerned, exploring the scientific criteria of decentralization is the key to extricating China's economic reform from the predicament of centralize-decentralize cycles. In practice, the market-oriented reform has proved that how much the buyers and sellers participate in competition, how the market shares are divided, and how large the discrepancy in supply and demand elasticities all play a part in determining the actual outcome of decentralization. Therefore, we must consider the objective and scope of decentralization in accordance with the market structure. For example, sectors whose products or services are a natural monopoly or public utilities which should be operated under monopoly to generate the most socioeconomic benefits should not have the same decision-making rights as other sectors. They must be given more "planned signals" than market signals; otherwise, driven by the urge to pursue microeconomic gains, their market inclination will often lead them to sacrifice the public good. In particular, where the macroeconomic environment is a little tight, decentralization must face the reality of the presence of a market where supply and demand are not balanced. In a buyer's market, the production cost of the commodities and the selling price are under downward pressure. At this point, the microeconomic entities will have more [as published] power to make pricing decisions, and it is much more difficult for them to try to make a quick profit. But in a chronic seller's market, market-oriented reform will intensify the upward pressure on prices. Today, many small-scaled, high-cost, and poor-quality productions not only can sustain themselves but are actually making

a profit. This is because they can utilize the power in hand to take advantage of the price situation and get rich by nonproductive means.

If we ignore the existing market structure and persist in thinking that decentralization will generate efficiency and vitality, lead to good market order, and produce effective regulatory mechanisms, we are not only being unrealistic, but this kind of thinking will break up the national economy and bring defeat to reform. For example, the services of some public consumer sectors cannot be assessed based on market rules. To force them to make money on their own or to operate as enterprises will only disrupt the market boundary. Today, improper money-making activities conducted by government organs and other institutional units have already had an adverse effect on reform. For example, due to inadequate educational funding, schools resort to setting up enterprises to supplement their income. This kind of remedy which is worse than the ailment, like cutting out a piece of one's flesh to cure a boil, lead many enterprises and institutions to devote more to their sideline occupation than their main occupation and to compete with one another to make money, and more and more, they no longer try to fulfill their duties and do a good job. Because of the low technological standards, some economic resources are drafted into production and management, lowering the degree of division of labor in society and the efficiency in resource allocation. This kind of improper money-making activity encourages such practices as pulling connections, using the back door, selling diplomas, circulating funds outside the system, and abusing official power in exchange for material benefits. Moreover, these activities tend to increase non-institutional income, creating more extra-budgetary funds, which become the main force behind the double, consumption and investment, expansion. To devolve decision-making authorities without regard for the market structure not only increases the friction within the dual system but further retards market development. In addition, danger looms from the start that this kind of decentralization of authorities will one day be replaced by the centralization of authorities. This is the reason why China's decentralization has never been able to get out of the strange centralize-decentralize circle. Perhaps decentralization should be the first problem to be solved during macroeconomic reform.

#### V. Several Options in the Near-term Structural Reform

Today's the grim macro situation indicates that China's economic development and structural reform have reached the critical point. If we want to break the deadlock, gradually improve the grim situation, create a relatively comfortable economic environment for economic development and reform, and really put rectification and improvement into effective, it is imperative that we actively and steadily curtail the local governments' economic management functions and authorities and go on to mitigate the very important institutional cause that leads to volume and structural disequilibrium, that is, we must "cripple the vassal states." We may be

faced with strong resistance if we try to diminish the local governments' economic privileges and management functions, demolish the institutional base that causes the volume and structural disequilibrium, and remove the obstacle to development and reform, but sooner or later we must make the right choice. This is a precondition to sustaining the macro policies, including the present rectification and improvement effort, and it is also the way out of the present tangled reform situation. It is our opinion that the following are possible near-term measures:

(1) We must speed up the formation of a state-owned property rights organ and separate the property-right functions from the local government functions to limit local governments' interference in enterprises and their involvement in the economic process so as to facilitate enterprise reform. (2) We should speed up the process of giving banks their independence and augment the central government's monetary management decision-making authority. The motive behind speeding up the banks' independence process is to reduce local governments' pressure and influence on bank operations, so as to change the present situation where local banks and local governments are joined together like hooks and chains and to help lay the groundwork for a system which will give play to the regulatory and control functions of the central authorities' monetary policy. Furthermore, price stability and economic growth are directly related to monetary management; therefore, the monetary management decision-making authority should be concentrated in the hands of the central government. There are two components here: One, the total money supply; two, the credit scale. In practice, although the central government basically has the sole power to make decisions concerning the money supply, local governments often ignore the tight macroeconomic situation when they want to raise money. As they issue more stocks and bonds, they are also increasing the total money supply. With respect to the credit scale, we must define the scope of local governments' activities. What the local governments can do is just to provide the necessary information on various industrial development goals to influence the banks' credit activities. (3) We should promote reform of the tax system and make possible the separation of central and local policy-making authorities over taxation. In view of the fact that local financial contracts have become an obstacle to China's economic development and reform, we should turn to the classified tax system as soon as possible. Tax policy decision-making authorities refer mainly to the authority to change tax levies, reduce and exempt taxes, and set tax rates. The central government no doubt will control most of the classified tax revenues; therefore, the central government should have most of the decision-making authorities with respect to taxation. This includes the right to levy new taxes and adjust the tax rates. Local government's decision-making authorities lie in two areas: One, they should have the authority to reduce and exempt as well as to set the rate of local taxes. Two, if the central and local governments are to share

the revenues, local governments' authority must not infringe upon the central government's right to its revenues. In other words, local governments can make changes to affect only that portion of the tax revenue they are entitled to. (4) The central government may begin issuing compulsory-subscription treasury bonds for infrastructure constructions to local governments as a practical way to weaken local government's financial strength. This is a drastic measure to curb the investment and income expansion resulting from the local governments' involvement in the economic process.

Finally, it must be pointed out that the plan to "cut down the vassal states" is not just an expedient measure. If it were, once the macro situation improves, the fences which have just be torn down would be strengthened and China's economic development would get back into the strange centralize-decentralize circle. Regionalism, total chaos, and the back and forth central-versus-local power struggle are the visible phenomena, but the crux of the problem is the failure to delimit the functions and authorities of the central and the local governments and put them on an institutionalized, legislated track. Therefore, only if "cutting down the vassal states" becomes a part of the restructuring of the government system can we turn the "economy of the feudal lords" around. At the same time, it should also be pointed out that the readjustment of the local governments' functions and authorities is a very complicated process; there are many contradictions. Therefore, we must not be hasty; we need practical and effective measures, but we also need a methodical plan.

#### Footnote

1. Liu Guoguang: "Views on Several Important Aspects of Restructuring the Economic System," JINGJI GUOLI [ECONOMICS AND MANAGEMENT] 1979, Vol 1.

#### Strategies for Enterprise Separation of Taxes, Profits

90CE0113A Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT] in Chinese No 2, 28 Mar 90 pp 36-37

[Article by Tian Yong (3944 8673) of the District Tax Bureau Policy Research Office in Xianning, Hubei; Responsible editor: Xing Bochun (6717 0130 2504): "Strategies for Separating Taxes From Profits in Different Types of Enterprises"]

#### [Text] I. The Theoretical Basis for Separating Taxes From Profits

Marx said that "We have two kinds of powers, one being proprietary, or ownership, and the other political, or state power." As the PRC is a socialist country based on Marxist theory, our distribution relations between the state and state-owned enterprises should exist on two different levels. On one hand, as an organ of state power,

the state has political power and administrative functions, the exercise of which require it to have a hand in the distribution of enterprise net income to give it a fixed source of income (tax revenue) while, on the other, as the owner of state-owned enterprises' means of production, it also has economic power (ownership) and business management functions, the exercise of which require it to have a hand in the distribution of enterprise net income to give it a flexible source of income (profits). As this theory of dual state functions enables ownership to be separated from management, state-owned enterprise taxes and profits must also be correspondingly separated into dual channels.

However, a "flip-flop" phenomenon of first replacing taxes with profits, and then replacing profits with taxes, has been occurring repeatedly in the PRC for many years. This is because the blurring of the distinction between the state's hand in enterprise profit distribution based on political power or ownership, has forced the taxes that enterprises pay according to law to be lumped together with the profits that they turn over to the state. As everyone knows, the second step of the substitution of taxes for profits in the PRC since 1983, changed the former method of state-owned enterprises turning over profits to the state to paying income taxes, and replaced profits with taxes. Although this form of distribution played a key role in rationalizing the distribution relations between the state and enterprises, too high tax bases and management friction left income taxes seeming to be income taxes, while existing in name only. Since the state put the contract management responsibility system into general effect in state-owned enterprises in 1986, the merging of taxes with profits when signing contract management contracts by quite a few enterprises, has actually replaced taxes with profits. Although practice has proved that the contract management responsibility system has played a clear role in speeding up the separation of enterprise ownership and management, the separation of government administration from enterprise management, and the invigoration of enterprises, the effects of this unitary form of distribution on the profit distribution relations between the state and enterprises, are also being increasingly understood and followed with interest by the public. According to a report in JINGJI RIBAO (ECONOMIC DAILY), while locally budgeted, state-owned, contracted, industrial enterprises earned 21.3 percent more profits in 1988 than in 1987, they paid 9.5 percent less in tax revenue to the state. Although it is common knowledge that the purpose of the contract management responsibility system was to ensure the steady growth of national revenue by invigorating enterprises, these figures show that this nonstandard form of profit distribution has defeated the state's purpose by encouraging responsibility for profits but not for losses. Thus, as it was necessary to look for a profit distribution mechanism which conforms to the PRC's actual conditions, the standard and orderly distribution mechanism of separation of taxes from profits has emerged as the times require.

## II. Strategies for Separating Taxes From Profits

Based on the above theory and facts, our general strategy for tax and profit flow should be to separate taxes and profits into the following two channels, based on distinguishing the jurisdiction of public finance departments and tax bureaus, with each attending to its own duties and having its own responsibilities: 1) tax bureaus should exercise the state's political power, by calculating and collecting income taxes according to the tax rates in income tax laws; 2) public finance departments should have a hand in the after-tax profit distribution of state-owned enterprises on behalf of the state.

First, as to the specific strategy for tax revenue flow channels, tax bureaus should make income tax management a systematic project in ways, such as formulating policy, approving reductions and exemptions, supervising collection, and managing the financial affairs of state-owned enterprises. In short, they should cast off the yoke of the system of "separation of national and local revenues," persist in calculating and collecting income taxes according to tax rates, and administer taxes according to law. Taxpayers who have problems should be given preferential treatment by tax bureaus according to policy. Concessions to enterprises by localities which have abundant financial resources, must also be made through submitting plans for tax reductions and exemptions to tax bureaus for approval.

Of course, the first thing that must be done in collecting income taxes, is planning a set of scientific tax rates, in order to delimit tax collection rationally. These rates must both ensure the source of national revenue while considering the capacity of enterprises to bear the burden, so that enterprises can accumulate, upgrade, and develop on their own initiative, property owners can earn reasonable profits, and the profits earned by managers and producers are roughly equal to the value of the work that they do. While some comrades advocate a single 35-percent tax rate regardless of industrial structure, industry, or region, in order to make collection easier, I think that calculating and collecting taxes according to a single rate in a country like the PRC, which has such great interregional and enterprise differences, would not only make it impossible to achieve the goal of impartial taxation, but might even weaken income tax collection by causing the phenomenon of "collecting more from the poor and conceding more to the wealthy" to resurface. Based on the principles of giving consideration to reasonable burdens for both sides and fair competition, and the substitution of taxes for profits, I think that income tax rates should be reduced, regulatory taxes should be abolished and, without regard to enterprise size, loan repayment should be changed from pretax to aftertax, and a new 8-grade, superprogressive tax system should be put into effect. The grades should run from a maximum of 40 to a minimum of 5, with the maximum tax payment being 35.62 percent.

Second, after ownership is separated from management, distribution between the state and enterprises should be



diversified so that profits flow in the following four forms: 1) contracted enterprises should turn over profits to the state; 2) the state should share in the profits of shareholding enterprises in which it holds shares; 3) State-owned and collectively run small enterprises should pay fund-use fees to the state; 4) leased enterprises should pay rent to the state. Public finance departments should be responsible for this aftertax profit distribution by signing contracts, setting contract bases, checking and ratifying share values, appraising leased assets, collecting the state's proper share and, in short, organizing and managing the state's flexible source of income.

**1. Profit Contracting:** The key to aftertax contracting, regardless of the form, is the need to check and approve contract bases and progressive increase percentages. These must not be set by simple comparison, which would be unscientific and lead to the phenomena of "one-on-one" bargaining and "better deals for those who deal harder." Rather, they should be set by the technical-economic method of fully considering all factors, such as enterprise standards, regional differences, product mix, and market conditions, based on the social average for each industry. Once contract bases and progressive increase percentages are set, enterprises will sign contracts with public finance departments for fixed periods of three or five years, contracts will be fulfilled according to contract regulations, profits will be paid to the state monthly with year-end settlement of accounts, superprofits will be kept by enterprises, and shortfalls will be made up out of enterprise funds.

**2. Profit Sharing:** As our reform trend is steadily increasing, the number of enterprises with mixed ownership in the PRC, and shareholding enterprises have begun to develop nationwide, a flexible method of profit sharing, based on the principle of compensation for fund use, can be used. This will have the following advantages: a) it will attract and guide idle capital to flow in rational directions; b) it will make property owners and managers assume joint responsibility for risks, to reduce unchecked investment and decisionmaking mistakes. I think that profit sharing, in whatever form, should be carried out in the following steps: a) dividend rates should be set according to the percentages of all enterprise fixed and circulating funds that are held by investors as shares; b) dividends should be paid from total profits according to these rates. Dividends should be paid monthly according to predetermined quotas, and overall accounts should be settled at year-end, with overpayments being returned and underpayments being supplemented.

**3. Fund-Use Fee Payment:** State-owned and collectively run enterprises must pay aftertax fund-use fees, for their use of the state's fixed assets and circulating funds, according to the following standards: according to current bank interest rates on capital construction loans for fixed funds; according to current bank interest rates on fund loans for circulating funds.

**4. Rent Payment:** Leasing fees for leased enterprises should be changed to aftertax payment, and a "two-part system" should be used for these enterprises, in which part of their aftertax profits is paid to the state as rent, and the other part is kept by the enterprise. As leased enterprises are generally rather small, and most of them had incurred losses or earned only tiny profits before being leased, a fixed percentage of rent should be collected from them, based on the current value of their pre-leased fixed assets and their respective industries, regions, products produced, and commodities managed. This will give their managers good prospects of gain, while preventing erosion of sources of revenue.

### III. Supplementary Steps for Separating Taxes From Profits

Unless the necessary corresponding supplementary steps are taken to carry out these strategies for separating taxes from profits, we are likely to end up following the same old disastrous road.

**1.** After taxes are separated from profits, separate budgets should be used to make it clear that the capital budget is for productive investments, because part of the state's budgeted revenue will come from both income taxes and also profits paid to the state by enterprises. One budget will be a fixed budget of tax revenue, which will be used to pay the necessary expenses for maintaining the normal operation of the state machinery, and to invest in public utilities. These expenses should be balanced by income, and expenditures should be kept within the limits of income. The other will be a capital budget of profits, which will be used for nationally productive investments and expanded reproduction. From a practical perspective, the capital budget should be relatively centralized, but used in a decentralized way based on enterprise debts. It can be transferred formally or without compensation, provided as repayable circulating funds, or used as special funds to buy shares. Thus, based on cutting off the channel of special loan pretax deductions to enable the fixed budget to grow steadily, this will ensure that the capital budget is not diverted to other purposes, by both finding new ways to use funds to support enterprises, and also by creating the economic conditions for enterprises to clear up their debts.

**2.** Our financial system should be appropriately restructured to unify costs and listed expenditures. Over-spending on medical costs and welfare funds should be allowed to be listed as "extra-business expenses," while production bonuses and fuel subsidies should be allowed to be included in production costs. Although marketing expenses should be allowed to be included in costs, expenses not directly related to production, such as educational surcharges and housing construction costs for retired cadres, should not be allowed to be listed as pretax expenses. As certain currently stipulated pretax deductions are blurring the distinctions between costs and affecting the accuracy of income calculations, a set of income tax laws should be drawn up to change the



situation of dishonest cost calculation and unclear listed expenditures, and standardize tax calculation.

3. Lower percentages of energy-and-transportation funds should be collected from fewer enterprises. As state collection of income taxes from enterprises will take away some of their profits, and budget adjustment funds must also be collected now, energy-and-transportation funds must be reduced to eight percent and collected from fewer enterprises (those with average retained profits of less than 250 yuan per capita should be exempt).

4. Control over the actual profits that enterprises keep should be enhanced in the following ways: a) all social apportionment should be refused; b) irrational allowances for responsible departments should be reduced; c) strict distinctions should be made between production and nonproduction funds, to keep production funds from being diverted to other purposes.

5. Although control over bonus and construction taxes should be enhanced to effectively control excessive growth of consumer funds and unlimited expansion of investment, preferential tax terms should be given to enterprises for investing their retained profits in the construction of production facilities.

#### Amelioration of Industrial Structure

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[Article by Xiong Yingwu (3574 2503 2745), Wu Guohua (0702 0948 5478), Zhang Yi (1728 5669), Xu Mingda (6079 2484 6671), Kang Yongping (1660 2837 1627) and others of Shenzhen City People's Government's Investigation and Research Office: "Improvement of Industrial Structure at an Appropriate Economic Growth Rate"—article is part of the contents of a prescribed research study on China's social sciences in the Seventh 5-Year Plan period headed by Xiong Yingwu.]

[Text] Each time we looked at the condition of China's social productive forces, due to the different points of outlook, frequently we obtained diametrically different conclusions. For example, on the one hand, we would note the large amounts of the output value and the output volume and found them to be in the front ranks of the world. At the end of 1979, volume of coal output was one billion tons while steel production broke the 60 million ton mark; on the other hand, in regard to grain, coal, electric power, steel and the GNP, the per capita amount was rather small and our country was still in the ranks of economically backward countries. Making a deep-going study, it is easy to find that the weakest point in China's social productive forces lies in the poor integral functions. This weak point is relatively centrally manifested in the industrial structure. Hence, this article will make an intensive analysis of China's industrial structure.

#### High-Level Degree of China's Industrial Structure

Industrial structure is the structure of productive forces based on the demarcation of industries. The state of the industrial structure may be analyzed from the two sides of vertical direction and lateral direction. The vertical direction refers to the stage occupied by the industrial structure of a country in the series of progressive grades of the industrial structures in the world and this is the high-level degree or grading of the industrial structure. As for the lateral direction, it refers to within a country's industrial structure the state of coordination between the industries and this is the degree of equilibrium of the industrial structure. Only through grasping the high-level degree and equilibrium degree of the industrial structure can we make an objective assessment of a country's industrial structure.

World industrial economic history demonstrates that the development of industrial structure involves the process of progressively ascending from a low level to a higher level. The general manifestations of this process are as follows: 1. The relative weight of primary industry began on a rather large scale but subsequently the scale shrunk in size; the relative weight of secondary industry and tertiary industry began on a rather small scale but continuously expanded subsequently. At the industrialization stage, the relative weight of secondary industry rose rather rapidly, surpassed the relative weight of primary industry but after the industry occupied the principal position and reached a stated high peak, it would steadily decline. Simultaneously, the relative weight of tertiary industry rapidly rose and gradually took over the principal or leading position of secondary industry. 2. In the industrialization period, first the relative weight of light industry was rather large following which the relative weight of heavy industry steadily rose and surpassed the relative weight of light industry. At the same time, the relative weight of the raw materials industry and that of the traditional industry gradually fell while the relative weight of the machine-building industry and that of modern industry expanded. This was the result of the improvement of the productive forces being in conformity with logic. Following this historical track, let us study the state of China's industrial structure. First, let us start from the structural level of the three categories of industries. This will require starting from the two sides of the proportion of the production and the proportion of the input of productive forces into the three categories of industries.

The structure of the output value of China's three categories of industries generally resembles the level in the 1920's of the developed capitalist countries. Over the 30 years and more since the founding of New China relatively big changes have occurred. From 1952 to 1986, the relative weight of the output value of the primary industry dropped from 45.42 percent to 21.61 percent, a fall of 23.81 percent. The relative weight of the output value of secondary industry rose by 24.66 percent (59.04-34.38), while the relative weight of tertiary industry showed very little change, being a drop of only

0.4 percent (20.20-19.80). In the 1980's, the distribution of the output value of the three categories of industries in China was generally: primary industry, above 20 percent, secondary industry about 60 percent and tertiary industry, below 20 percent.<sup>1</sup> In comparison with the economically developed countries of the West, the level of the structure of the output value of China's three categories of industries in the 1980's was lower than the

level of the 1880's and 1890's in the United States and Britain, near to the level of the 1920's in Germany and also rather similar to that of France at the end of the 19th century and the beginning of the 20th century. For the sake of correctly explaining this observation, we have separately calculated the similarity coefficients of China with the United States Germany, Britain, France and Japan. Based on the findings of these calculations, we have formulated Table 1 as follows:

**Table 1. Similarity Coefficients of Structure of China's 1986 Social Gross Output Value With United States, Germany, Britain, France and Japan**

		China (1986)		China (1986)		China (1986)
U.S.	End 19th Century	0.93	1920's	0.86	1970's	0.72
Germany	"	0.74	"	0.99	"	0.93
Britain	"	0.82	"	0.92	"	0.80
France	"	0.97	"	0.97	"	0.89
Japan	"	0.69	"	0.83	"	0.85

The similarity coefficient of the structure of the output value of China's three categories of industries was the highest with Germany's structure of the 1920's, being 0.99; it was also very high with that of France at the end of 19th century and in the early period of the 20th century, both being 0.97; but compared with the United States and Britain at the end of the 19th century it was respectively 0.93 and 0.82. It can thus be seen that the degree formed by the output value of China's three categories of industries in 1986 was lower than that of the United States and Britain at the end of the 19th century.

Further taking the five countries of the United States, Germany, Britain, France and Japan as a gross body and after multiplying the ratios of each country with an appropriate weight, we can obtain the structure of the output value of the gross entity of the five countries. Following this, a comparison of this gross body will enable us to generally judge the height of our country's position in the list of the world's output value structures. The reasons for selecting the list of the structures of the western economically developed countries as the historical reference list for our country's industrial structures are: First, the stage of the advance of the industrial structures of these developed countries is relatively complete and, second, in countries with market economy as the main body, the progress of the industrial structure has a strong natural character, suffers less from the interferences of noneconomic and accidental factors, and is suited to serve as reference list for prolonged surveying work.

**Table 2—Gross Body Social Output Value Structure of the Five Countries of the United States, Germany, Britain, France and Japan (percent)**

Industryperiod	End 19th Century	1920's	1970's
Primary	22.07	12.64	3.69
Secondary	38.25	44.90	39.64
Tertiary	39.68	40.18	53.55

Note: Compilation based on data on page 54 in Yang Zi's "Guide to Industrial Economics," publishing house of the People's University of China, 1985 edition. Due to incomplete data, in this table the weight for the various countries for the end of 19th century and early 20th century was calculated on the basis of the relative weight of the industrial gross output value of the period while for the period of the 1970's the weight was calculated on the basis of the relative weight of the social gross output value of the various countries.

Comparing the 1986 industrial structure of China's three categories of industries with Table 2, the following conclusions may be made: the similarity co-efficient of the structure of social output value of China and of the economically developed countries of the West was 0.90 at the end of the 19th century, 0.92 in the 1920's and 0.79 in the 1970's. In comparison, it may be said that the 1986 industrial structure of China's three categories of industries was relatively near the level of the structure in the 1920's of the western economically developed countries. This estimation is a very rough one because similarity at 0.92 is not a very high one. Seen from the relative weights of the primary industry and the tertiary industry, they did not reach the level on the 1920's of the developed countries, but the relative weight of China's primary industry was higher by 8.96 percent over the

West (21.60-12.64) whereas the relative weight of China's tertiary industry was smaller by 20.38 percent (40.18-19.80) than the West. Computed on the basis of an annual growth rate of 0.3 percent in the relative weight of tertiary industry (in the U.S.A., annual growth rate of the relative weight of tertiary industry 1895-1971 was 0.29 percent and in France it was 0.23 percent), it would take 68 years for the relative weight of tertiary industry in China's 1986 structure to reach the level of the 1920's of the Western economically developed countries. Pushing the time period backward, the relative weight of tertiary industry in China's current structure is equivalent to only the level in the 1830's to 1940's of the Western economically developed countries, that is, Britain's level at the time of the initial completion of the first industrial revolution. That the relative weight of China's secondary industry approached 60 percent is a phenomenon seldom seen in the economic history of the Western economically developed countries. In the proportions of the output value of China's industrial structure, the lagging behind of the relative weights of the primary and tertiary industries and the surging ahead of the relative weight of secondary industry was a deviation of the structure of China's output value from the historical track. However, examined as a whole, still there was a greater proximity to the level of the 1920's of the Western economically developed countries.

The height of the labor force structure in between China's three categories of industries more or less resembled the level of the structure in the 1870's of the Western economically developed countries. From 1952 to 1985, the direction of changes in our country's labor force structure conformed with the general laws governing the progress of labor force structure, that is, fall in the relative weight of the labor force of primary industry and rise in the relative weight of labor force in secondary and tertiary industries. The relative weight of labor force in primary industry dropped from 88.11 percent in 1962 to 75.99 percent in 1985, or a total drop of 12.12 percent in 33 years, averaging an annual fall of 0.367 percent. The relative weight of labor force of secondary industry rose from 6 percent in 1962 to 13.23 percent in 1985, a rise of 7.23 percent. In the same period, the relative weight of the labor force in tertiary industry rose from 5.89 percent to 10.78 percent, a rise of 4.89 percent. The average annual rise of secondary and tertiary industries was respectively 0.219 percent and 0.148 percent.<sup>2</sup>

A comparative analysis of the condition of China's 1985 labor force structure with that of the United States, Germany, Britain, France and Japan in a recent century yields the following conclusions: China's present labor force structure has not yet reached the level of the United States, Germany, Britain and France in the 1870's to 1880's. At that time, the relative weight of the labor force of primary industry in the various countries of United States, Germany, Britain and France was already lower than 5 percent whereas in 1985 the relative weight of labor force in primary industry of our country was still as high as 75.99 percent. Japan was a late-comer among the

developed countries. At the end of the 19th century and the beginning of the 20th century Japan's industrial output value was only 1.9-3.4 percent of that of the United States, and the backwardness in the productive forces was reflected in the backwardness of the industrial structure; the relative weight of the labor force of Japan's primary industry was very high. In the 1870's, 1880's, 1890's and the first 10 years of the 20th century, its relative weight was respectively 85 percent, 78 percent, 72 percent and 62 percent, more or less near to the relative weight of our country at present. Similarly, the relative weight of the labor force of secondary and tertiary industries was very much like ours. The similarity coefficients between our country in 1985 and Japan in these four periods in respect of the labor force structure were as high as 0.993, 0.998, 0.998 and 0.981. It can thus be seen that our country's current labor force structure is very much similar to that of Japan in the 1880's to the first 10 years of the 20th century. Beginning from the 1930's, the labor force relative weight of Japan's primary industry started to be lower than 50 percent and by the 1980's was only 10.3 percent, whereas the relative weight of tertiary industry rose to 54.9 percent and entered into a new era of the "service industries."<sup>3</sup>

After separately comparing with the five countries, below is a comparison with the gross body of the five countries:

**Table 3. Gross Body Labor Force Structure of the Five Countries of the United States, Germany, Britain, France and Japan (percent)**

Industry	1870's	1920's	1980's
Primary	58.33	24.05	5.76
Secondary	23.28	40.25	34.25
Tertiary	18.39	35.63	59.96

Note: Compilation based on the statistical data on pp 41 and 57 of Yang Zhi's book "Guide to Industrial Economics." Due to the limited data available, figures for the 1870's and 1920's were weighted on the basis of the relative weight of total population of the five countries, figures for 1980's were weighted on the basis of the relative weight of the number of people under employment. Figures for the 1870's were the gross body conclusions of the three countries of the United States, France and Japan.

Seen from the figures in Table 3, regarding the labor force structure in the three industry categories of the Western economically developed countries only the level in the 1870's was in a low-grade stage, the earmarks being: the relative weight of primary industry exceeding 50 percent; the relative weight of secondary industry below 24 percent; and the relative weight of tertiary industry was even lower. Although at this time, the labor force relative weight of secondary industry already exceeded the relative weight of primary industry, that is, so-called exceeding the X interjection point of primary industry and secondary industry and realizing real industrialization, yet taking the five countries as a total entity obviously still failed to reach this height. By the time of the 1920's, the number of people under employment in

secondary industry already exceeded by a rather large margin the number of workers under primary industry and entered a comparatively matured period of industrialization. And about half a century later, among the Western economically developed countries, the relative weight of the labor force in secondary industry was steady but slightly falling. The relative weight of labor force in tertiary industry surpassed the relative weight of secondary industry, that is, surpassing the so-called X interjection point between secondary industry and tertiary industry, also reached over 50 percent and entered the era of service industrialization.<sup>4</sup> Obviously, a rather large disparity exists between China's labor force structure and the level of industrial structure of Western economically developed countries since the beginning of this century. The similarity coefficient between our country's 1985 labor force structure with the structure in the 1980's of the Western economically developed countries was only 0.28 while the similarity coefficient in the 1920's was only 0.59 and that in the 1870's was as high as 0.97. It can thus be seen that China's current labor force structure is equivalent to only the level in the 1870's of the Western economically developed countries.

#### Condition of Technical Structure of China's Industries

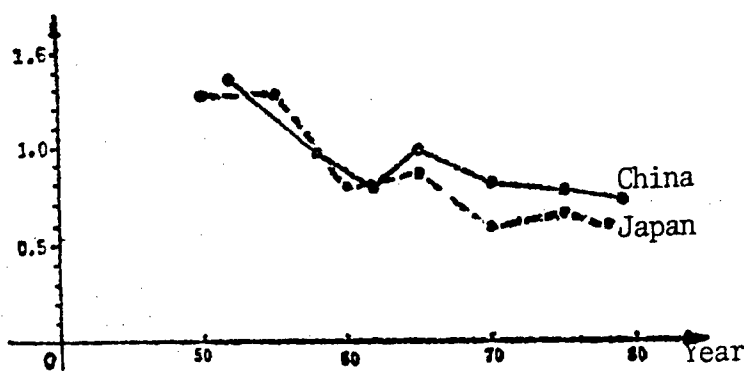
Merely taking the state of structure of the three categories of industries to judge the height of the productive forces is not comprehensive enough. This is because the historical span in the existence of the three categories of industries, namely, primary, secondary and tertiary, is rather large and they can possess greatly different technical foundations. Hence, it is still necessary for us to analyze from the side of the technical structure the state of China's social productive forces and examine whether or not the above-mentioned conclusions made on the height of China's industrial structure were correct.

The current system of productive forces still takes the machinery industry as the main body. Let us look at first the condition on the side of China's industry. Due to the shortage and lack of basic data, we can analyze only several categories of data relative to the state-owned large- and medium-sized enterprises; that is, pertaining to conditions of the equipment level, workers' cultural degree, and degree of workers' technical attainment. Among our country's large- and medium-sized enterprises in 1985, equipment of the 1980's occupied 32.99 percent, of the 1970's, 44.03 percent, 1960's, 13.43 percent, 1950's, 8.6 percent and before the founding of the PRC, 0.95 percent. As for the workers' cultural degree, colleges and specialized institutes and middle schools and specialized schools were respectively 0.46 percent and 1.81 percent; technicians, middle-high, primary-high and primary schoolings were respectively 6.06 percent, 19.33 percent, 48.84 percent and 21.01 percent; and illiterate or only slightly literate, 2.49 percent. Seen from the conditions of the workers' technical training, able to do automatic controlling work, only 2.60 percent, mechanized work, semi-mechanized work, and handicraft work were respectively 24.86 percent, 33.76 percent and 38.79 percent.<sup>5</sup>

As everybody knows, on the average, in respect of the technical conditions and technical level of China's industrial enterprises, the large- and medium-sized enterprises rank first, higher than the national average value. But occupying the leading and prominent position are the handicraft work-technology and semi-mechanized work-technology. Of China's workers, over 70 percent possess only the cultural level of primary school or primary middle school. In addition, according to the World Bank's report on literary contributions, "In accordance with a research estimate, of China's current (referring to the 1980's—editor) industrial technology, only 20 percent possess the level of the 1960's and 1970's, while 20-25 percent have already become backward, though still able to serve present needs, and the remaining 55 to 60 percent should be renovated."<sup>6</sup>

Let us turn next to the condition of agriculture. In 1986, the total number of workers in agriculture (including forestry, animal husbandry and fisheries) was 313 million, composing 60 percent of the total population of workers in the whole country. They possessed 866,000 large- and medium-sized tractors of mixed brands, 4.52 million sets of small and hand-operated tractors, one million sets of large- and medium-sized machine-drawn farming appliances, 30,900 sets of combine harvesters and 499,000 heavy-duty lorries for agricultural use.<sup>7</sup> This is to say: on the average each 361 farm workers had one set of large- or medium-sized tractors, each 69 farm workers had one set of small tractor, each 313 farm workers had one set of machine-drawn farming instrument, each 10,000 farm workers had one set of combine harvester and each 627 farm workers had a set of heavy-duty lorry for agricultural use. Because of the low level in equipment, in our country's agriculture, the level of mechanization, and electrification and in water conservancy was extremely low. In 1986, of the year's sowing areas only 25 percent actually belonged to mechanized farming and only 17 percent were irrigated by means of mechanical or electric power.<sup>8</sup> This illustrates: in our country three-fourths of the cultivated land depend on animal power and human power for farming and tilling and nearly 70 percent depend on "heaven" for irrigation. These statistics explain that the basic portion of our agriculture still is in the backward state of using human power, animal power and power of nature as the main motive power.

Another special feature in China's technical structure is the co-existence of both the most advanced technology and the most backward technology. A world bank's report describes the condition of a country possessing the most advanced technology and the most backward technology as that of a "centipede." The centipede ceaselessly proceeds forward, the head section being continuously renovated and the end section continuously abandoned. In their opinion, "the point of China's difference lies in the length of its technological centipede and the trend of its increasingly growing longer." Following the introduction of new crafts and new products, the worm's head goes forward but its tail does not move



at all. Conditions of casting away equipment and abandoning old products are exceedingly rare. China's machine-building industry not only employs antiquated equipment but also continues to manufacture ancient equipment and this exhausts a large portion of the investments. What is especially peculiar is the coexistence of good-quality and poor-quality products which are sold at equal prices.<sup>9</sup>

In short, the technical structure in China's social productive forces system is still located in the transitional stage from traditional technology to industrialization. The large-existence of handicraft technology together with mechanized, semi-mechanized and modernized technology have formed a peculiar technological structure. This is unanimous with the conclusions obtained in the analysis of the industrial structure, or maybe, the latter analysis further confirms the conclusions reached in the former.

#### Super Heavy Industrialization and High-Degree Development of Processing Industry in China's Industry

The level of the structure of industry provides the content for examining the deeper layer of the height and extent of the industrial structure. The earmarks for

measuring the level of structure of industry are, first, look at the degree of heavy industrialization and, second, look at the heightening degree of processing. Following the progress of industrialization, the relative weight of heavy industry rises and the relative weight of light industry falls; the relative weight of processing industry and of packaging industry rises while the relative weight of raw materials industry and that of the basic industries fall. The German economist Hoffman at one time used a comparison between the net output value of industry of the means of consumption and the net output value of the industry of means of production to demarcate the four stages of industrialization: first stage, Hoffman ratio equals 5 (plus or minus 1); second stage, Hoffman ratio equals 2.5 (plus or minus 1), third stage, Hoffman ratio equals 1 (plus or minus 0.5); and fourth stage, Hoffman ratio  $< 1$ . Hoffman believed that in the 1920's, countries located in the first three stages were: First stage, Brazil, Chile, and India; second stage, Japan, Holland, Denmark, and Canada; and third stage, Britain, Switzerland, United States, and France. At the time no country had appeared in the fourth stage. After using Hoffman's coefficient to make an analysis it was discovered that the degree of China's current heavy industrialization was considerably near to Japan's current level.

Table 4. Hoffman's Comparative Values, China and Japan

Year	1952	1957	1962	1965	1970	1975	1979	1984
China	1.34	0.98	0.76	0.99	0.81	0.76	0.62	0.68
Japan	1.27	1.29	0.79	0.84	0.56	0.65	0.60	
Year	1950	1955	1960	1965	1970	1975	1978	

Note: Compilation based on statistics in "A Study on Problem of China's Economic Structure," edited by Ma Hong (7456 3163) and Sun Shang-qing (1327 1424 3237), People's Publishing House 1981 edition, p 103; and "Analysis of Japan's Economic Structure," by Japan's Toshio Sanuki, published by the Jiang Ning Publishing House, p 26.

In 1952, our country's Hoffman coefficient was 1.34 and already reached the level of Hoffman's so-called third stage. After 1957, our country's Hoffman coefficient was smaller than 1, reaching the level of the fourth stage. By the 1970's and the 1980's, this proportion about equalled that of

Japan. Japan's Hoffman coefficients in 1975 and 1978 were respectively 0.65 and 0.60 while our coefficient in 1975 was 0.76, a difference of 0.11 and was 0.62 in 1979, a difference of 0.02. Since the 1950's, China's Hoffman coefficients were rapidly nearing Japan's Hoffman coefficients.

Next, let us compare the distribution of labor force between light industry and heavy industry. In 1965, comparison of the labor force between light industry and heavy industry was 0.9 in our country and 1.15 in Japan; in 1970 it was 0.69 in our country and 1.05 in Japan. Within a short period of a decade of years, the relative weight of labor force in our country's heavy industry rose sharply, even to the extent of surpassing Japan. In 1975, our country's Hoffman coefficient was 0.63 and Japan's was 1.03 and this pattern has been maintained. After the 1980's, the relative weight of heavy industry of our country employment of labor force fell slightly while the relative weight of our light industry's use of labor force rose and the former was still much higher than Japan's level. As everybody knows, Japan is a country which possesses highly developed industrial productive forces. While industrial structure has its own special features, its general pattern is not greatly different from the European and American developed countries. From this it can be seen that in our country at present the degree of heavy industrialization in our industrial structure is not lower than the level in the 1970's of the developed countries.

Following rapidly pushing heavy industrialization, China's industrial structure has shown the trend of heightening development of processing. Since the establishment of the PRC, in the industrial structure the machine-building industry has developed most rapidly. In 1955, the relative weight of machine-building industry was 14.7 percent of the industrial gross output value. By 1984 it was as high as 36 percent and in the relative weights of the industries jumped from the third place to the first place. At the same time, the relative weight of metallurgical industry, the main body of the raw materials industry, dropped slightly, from 7.6 percent in 1955 to 7.2 percent in 1984. The relative weight of our country's food processing industry dropped rather rapidly from 23.7 percent in 1955 to 7.5 percent in 1984. Simultaneously, the relative weight of the textiles industry also dropped from 22.2 percent to 12 percent. In addition, the relative weight of the chemical industry rose by a large scale, rising from 5.8 percent in 1955 to 24 percent in 1984, and being next only to machine-building industry. This order of listing in the industrial structure was unanimous with the listing of the modern industrial structure in western economically developed countries.

In the Western economically developed countries, beginning from 1955, machine-building industry, representing heavy industry, has occupied the first place, and its relative weight was 31.3 percent. Twenty years later, its relative weight rose to 36.2 percent in 1974, an increase of 4.9 percent. In the same period, the scale in the rise of the relative weight of our machine-building industry was over 400 percent larger than the developed countries, there being an increase of altogether 20.2 percent. In the developed countries among the fluctuations the relative weight of the metallurgical industry dropped slightly, the extent of its changes being smaller than that in China

during the same period. In these 20 years, the rise in the relative weight of chemical industry was only 4.2 percent, being one-fifth of our country's increase of 17.2 percent. Precisely because after the establishment of New China, the rise in the relative weight of machine-building industry and chemical industry was rather large in scale, the relative weight of the food and textile industry, representing the traditional industries, dropped by a rather large extent, the processing degree of our country's industrial structure rose speedily, nearing the level at the same period of the developed countries. In industry the five largest departments are machine-building, chemical, metallurgy, food processing and textiles. In 1955 the similarity coefficient in the structures of the five large industrial departments between our country and the developed countries was 0.72, showing a rather large disparity but by 1974, the similarity coefficient was 0.97 and the two considerably approached each other. In 1984 the similarity coefficient in the structures of the five large industrial departments between China and the developed countries in 1974 was as high as 0.99. Seen from the sideline, the heightening degree of the processing sector in China's industrial structure has reached the level of the 1970's of the developed countries and this is basically unanimous with the level of heavy industrialization of the industrial structure. However, it must be pointed out that although a high-level degree of an industrial structure is directly related to the industrial technical level, a high degree in industrial structure is not synonymous with a high degree in technology. In reality, among countries of different technological levels, there is the possibility of the high degree of the structure being similar. Hence, although the level of China's industrial structure, measured quantitatively is already rather high, yet, as mentioned above, this industrial technological level is still considerably backward.

Basic conclusions: the altitude of the labor force structure in China's three categories of industries is only equivalent to the level in the 1870's of the Western economically developed countries; the output structure in China's three categories of industries is generally near the level in the 1920's of the Western economically developed countries; and the altitude of China's industrial structure has already reached the level in the 1970's of the Western economically developed countries. If these conclusions are correct, then the three weights in our country's industrial structure, namely, the altitudes of output value structure, labor force structure, and structure of the industries, are distributed in greatly different layers, and the disparity between the levels in front and behind reaches 50 to 100 years. This is a phenomenon of a very peculiar large-span wrong-positioning in China's industrial structure and is also the source of the very low degree of equilibrium in China's industrial structure. When analyzing the condition of China's industrial structure we must be sure not to wrongly interpret this phenomenon of extremely abnormal large-span wrong positioning as indicative of any kind of "superior nature," otherwise it will cause inestimable harm to macroeconomic decisionmaking.

# **How To Comprehensively Evaluate the Equilibrium Degree of China's Industrial Structure**

Everybody knows about the noncoordinated condition of China's industrial structure. We shall not talk about it here. There are now two problems awaiting intensive study: The first is the cause for the longterm imbalance or noncoordination of China's industrial structure. In the above we strongly pointed out that in China's industrial structure, the "long-span wrong positioning," the "greatly excessive heavy industrialization and the heightened degree of processing" constituted one of the fundamental causes for the long-term imbalance in the industrial structure. The second is what method to adopt to comprehensively evaluate the equilibrium degree of China's industrial structure. Below we shall introduce the concept of the "deviation degree" in an attempt to

quantify our conclusions. "Deviation" mentioned here refers to the nonsymmetrical state existing between the labor force structure and the output value structure. The more nonsymmetrical the labor force structure and the output value structure are, the higher is the deviation degree between them. Conversely, the lower will be the deviation degree. The progress history of the output value structure of the Western economically developed countries is also a history of the labor force structure and the output value structure slanting from high deviation to low deviation.

We have computed the deviation degree of the structure in China since the 1950's and at the same time have computed the deviation degree in the structures of the Western economically developed countries at the end of the 19th century and in the 1920's and 1970's and have compiled Table 5 below for comparative study:

**Table 5. Comparison of Deviation Degree between Labor Force and Output Value Structure (percent)**

China	Industry	1952	1965	1978	1980	1985
	Primary	42.69	51.61	57.82	54.14	54.19
	Secondary	-28.38	-45.62	-49.29	-46.90	-45.35
	Tertiary	-14.31	-5.98	-8.53	-7.24	-8.83
	Total	85.38	103.21	115.64	108.28	108.37

Major Economically Developed Countries	Industry	End 19th Century	1920	1970
	Primary	36.26	11.41	2.07
	Secondary	-14.97	-4.65	-5.39
	Tertiary	-21.29	-4.55	6.41
	Total	72.52	20.61	13.87
Japan	Industry	End 19th Century	1920	1970
	Primary	29.30	26.90	10.00
	Secondary	-5.20	-8.00	9.00
	Tertiary	-24.10	-18.90	0
	Total	58.60	53.80	19.00

In our country the 1952 deviation degree in structure was 85.38 percent; after then it was unusually increased, being 103.21 percent in 1965 and further increased to 115.64 percent in 1978. After entering into the 1980's, it still continued to be higher than 108 percent. In the western economically developed countries at the end of the 19th century the deviation degree was 72.52 percent, lower than that in our country in the 1950's. After the 1920's, it dwindled to 20.61 percent and further down to 13.87 percent in the 1970's. Of these countries, the deviation degree in Japan at the end of the 19th century was 58.60 percent, better than the level in our country in 1952. Little change was made in the 1920's, being still 53.8 percent, a reduction of only 4.8 percent. However, in the 1970's the deviation degree of the structure

rapidly dropped to 19 percent. Thus, the deviation degree of the structure in our country in 1952 was near to that of the western economically developed countries at the end of the 19th century and deviation degree was 118 percent of theirs at that time (85.38 divided by 72.52). At the same time, it was 146 percent of that of Japan at the end of the 19th century (85.38 divided by 58.6). By the time of 1978, the disparity between China's deviation degree in structure and that of the Western economically developed countries at the end of the 19th century was widened. It was then 159 percent of theirs and 197 percent of that of Japan. If we compare China's deviation degree in structure of 108.37 in 1985 with the deviation degree in structure of 13.87 in the 1970's of the major Western economically developed countries, then ours was 781 percent of theirs. The phenomenon in China since the 1950's of the deviation degree following the economic growth and rising was contrary to the laws of the progress in structure and hence was a sort of regression in the course of the economic movement.

Further analysis shows that the cause of China's deviation degree staying high and sustained manner is principally due to the primary industry's positive high deviation figure.<sup>10</sup> In the subsequent 30 years and more, the relative weight of labor force of primary industry fell slightly but the span of the fall in the relative weight of output value was larger and faster and as a result the deviation degree between the two was further extended, the difference being 54.19 percent. The fact that in primary industry the relative weight of labor force is far higher than the relative weight of its output value explains that in our country's primary industry the relative labor productivity rate<sup>11</sup> is very low. Conversely,

in our country's secondary industry, the relative weight of labor force is far lower than the relative weight of output value. In 1952, in our country's secondary industry, the relative weight of labor force was 6 percent, the relative weight of gross output value was 34.38 percent and the deviation figure was -28.38 percent. This indicated a great disparity from the deviation figure of -14.97 percent of the Western countries at the end of the 19th century and Japan's -5.2 percent deviation figure at the end of the 19th century. Subsequently, the deviation figure of secondary industry was not reduced but was expanded. By 1978 it had gone up to -49.29 percent, or 174 percent of 1952. Up to 1985 the deviation figure of the structure of our country's secondary industry was still -45.35 percent. Thus, the relative productivity rate of secondary industry was rather high, a typical dual productivity rate structure was formed and this made industrial structure exhibit a very unbalanced state.

Naturally, in the course of economic development, an absolute balanced state cannot be found. So long as between the industries the technical progress rate is different, the phenomenon of a definite degree of deviation will appear. Generally, in a period of industrialization, secondary industry's pace of technical progress is faster than that of primary industry and as a result, the appearance of a definite degree of positive deviation of primary industry and of a definite degree of negative deviation in the secondary industry is a normal phenomenon, and is even a necessary condition for industrial progress. We should in the deviation degree of the industrial structure separate the normal deviation degree and take the left-over abnormal deviation degree portion as the lopsided earmark of the industry. Hence, we select the arithmetic average value of the deviation degree of the Western economically developed countries at the end of the 19th century and their deviation degree in the 1920's as the assumed normal deviation degree. This is because the altitude of the industrial structure of the three categories of industries in China generally was at about the same level of the structures of the western economically developed countries during those periods. In this way, assume normal deviation degree at 46.54 percent, the three weights were: 23.81, -9.81 and -12.92. After deducting the normal deviation degree, our country's abnormal deviation degrees were in 1952 38.84 percent and the three weights were 18.88, -18.97 and -1.39; and in 1985 70.01 percent and the three weights were 30.38, -35.54 and 4.09. Compared with 1952, our country's 1985 abnormal deviation degree was larger by 31.17 percent.

The abnormal deviation degree of the industrial structure is in inverse ratio with the structural benefits. The larger the structure's deviation degree, the more imbalanced is the distribution or spread of labor productivity rate in the various industries. This reflects the difficulty of a country's high-tech industry to disseminate its high technology to the lower-level industries and is not beneficial to the technological progress of the entire industry. At the same time, this state of affairs is consolidated by

the high deviation rate of the structure. For example, the relative weight of labor force in China's primary industry is overly large and in the vast rural areas a large amount of surplus labor force exists. This is an enormous waste of manpower resources. The excessive existence of surplus labor force makes the use of machinery a sort of uneconomical endeavor and thereby hinders the technical progress of the rural areas, widening the technical disparity between the urban and rural areas. In 1985, the labor productivity rate of primary industry in our country was only 0.287, while that of secondary industry was high as 4.429, the former being only one-fifteenth of the latter. If the secondary and tertiary industry are taken together for computation, then the relative labor productivity rate also reached 3.257 and the relative labor productivity rate of primary industry was its one-eleventh. An American scholar Simon "Ku-zhi-nie-ei (1655 5417 3206 5412)" worked out a statistical analysis of the relative labor productivity rates of 40 countries in the 1948-1954 period and found that the largest disparity in the relative labor productivity rate of primary industry and of the combined rate of secondary industry and tertiary industry was in the ratio of 1:3.7 whereas China's was 1:11 and although we deduct the scissors' differential of roughly one-third for agricultural products and nonagricultural products<sup>12</sup> the ratio will still be 1:8.3 which is far lower than the lowest level outside the country. The labor productivity rate of primary industry in our country is not only relatively extremely low but also rather low in absolute figures. Computed in terms of goods in kind, our per capita grain production is only one-twentieth of that of France, and one percent of the United States. Similarly, the absolute labor productivity rate of our country's secondary industry is also rather low.

Conclusion: The only selection is an appropriate economic growth in the amelioration of the structure.

Through the above analysis, it is possible to make the following conclusions:

The one-sided high-speed growth of the economy in the 40 years after the founding of the republic was in reality only the high-speed growth of the processing industry; agriculture, energy, communications and transport and industries like the raw materials industry grew very slowly and even have remained in a prolonged stagnated state while the industrial structure has been extremely irrational. The outstanding manifestations were that in the three categories of industries there has been a large-span wrong positioning in the three weights, namely, labor force structure, output value structure and industrial high-degree structure and that the deviation degree of the industrial structure was very high.

The "party central committee's decision on further improvement and rectification and deepening of the reform" designated six targets for improvement and rectification. Of them, two were as follows: "On the basis



of striving hard to improve the economic benefits, economic quality and scientific and technical level, maintaining an appropriate economic growth rate and striving for an annual growth rate of five to six percent in the GNP" and "rectifying the irrational state of the industrial structure and fighting hard for the gradual increase in agricultural production and for the gradual easing of the contradictions of the stringent supply and insufficient transportation capacity in respect of energy and raw materials." This is the general summary of the experiences in the 40 years' economic development. It indicates that we must change the economic development strategy and go the new road of an "appropriate economic growth in ameliorating the structure." In order to implement this economic development strategy, it is necessary to perform well the following two jobs: One is deepening the reform and establishing a structural environment for restricting the over-heating ailment of the economy; and the other is in theory and in policy realizing the changeover of the new and old economic development strategies.

In the book, *General Discussions on the Productive Forces*<sup>13</sup>, a general summary was made of the historical lessons from enforcement of high-speed economic development strategies by socialist countries. The book brought up the doctrine of "two types of reproduction (two types of economic growth patterns)." The so-called "speeding type" of reproduction pattern refers to that in the process of reproduction only quantitative changes in production volume, output value and growth rate happen; while the opposing "structural type" of reproduction pattern refers to that in reproduction process qualitative changes occur in the technical structure, product structure and industrial structure. Afterwards, in several articles of mine, i.e., "A Brief Discussion on the 'Structural Type' of Reproduction Pattern," "Thoughts on the Economics of 'Redoubling'" and "An Important Link In Macroeconomic Control—selection of an Appropriate Economic Growth Rate"<sup>14</sup>, I further amplified the above theories and analyzed the various kinds of actual economic operations: one kind is the high speed economic growth in the amelioration of the structure and this is the most ideal one; but it is a pity that it has been seldom seen; another kind is the high-speed economic growth when the structure is deteriorating; this is the worst, the Great Leap Forward being an example; and still another kind is an appropriate economic growth in the amelioration of the structure and this is the realistic and only wise selection.

Readjusting the structure and maintaining an appropriate economic growth must be carried out together. If only the speed is cut down but the deformed industrial structure is still maintained, then inevitably gross demand will be depressed, effective supply is cut down and the old problem of social gross demand exceeding gross supply still exists. This cannot achieve the target of improvement and rectification. Naturally, the days cannot be passed well if we only grasp structural readjustment and there is no appropriate economic growth.

Only through realizing an appropriate economic growth on the basis of amelioration of the structure can we get out of the dilemma. The key here is readjusting the structure—starting from readjusting the product structure and following up with readjusting the technological structure and the industrial structure. Readjusting the structure of the national economy cannot escape from stirring up large social vibrations and various kinds of social problems will arise therefrom. If we use the old method of strengthening the system of "everybody eating from the same big pot" so as to maintain enterprises that should have been eliminated, then the state will have to bear a heavy financial burden and thereby will be unable to push any sort of a slanting policy of ameliorating the industrial structure and what can be done is only maintaining the deformed industrial structure and the economy of low effects.

We are precisely facing a situation of two difficulties. Time does not permit us to hesitate anymore. It is time to make a choice.

#### Footnotes

1. See *Statistical Yearbook of China*, 1987, p 25.
2. Data quoted from "Analysis of China's Industrial Economy," compiled by Liu Wei & Yunhu, China International Broadcasting Publishing House, 1987 edition, p 38.
3. Regarding the labor force structures of the five countries of the United States, Germany, Britain, France and Japan, refer to Yang Zhi's "Guide to Industrial Economics," Publishing House of People's University of China, pp 41, 57.
4. See "Japan's Entry Into the New Era of Service Industries," edited by Toshihira Kobun.
5. Source of data: "PRC 1985 Industrial General Survey Statistics—Large- and Medium-sized Industrial Enterprises," China Statistical Publishing House, 1987 edition.
6. World Bank, "China: Problems and Programs of Longterm Development," China Financial and Economic Publishing House, 1985 Edition, p 144.
7. "China's Important Statistical Extracts, 1987," published by the China Statistical Publishing House, pp 18, 35, 28, 36.
8. Ibid.
9. "Guideline to China's Scientific and Technological Policy," White Paper No 2, Scientific, Technological and Cultural Productions Publishing House, 1987 edition, p 265).
10. There is a difference between deviation figure and deviation degree; the former refers only to the difference obtained by subtracting the relative weight of output value from the relative weight of labor force in the same

industry whereas the latter is the sum total of the absolute value of all the deviation figures.

11. Relative labor productivity rate is also termed comparative labor productivity rate and is equivalent to the comparative relative weight of output value divided by the comparative relative weight of labor force.

12. Economic circles in our country have made different calculations of the scissors' differential; here a rather high calculation is used.

13. Written by Xiong Yingwu; published by Heilongjiang People's Publishing House; 1983 edition.

14. These three articles were carried respectively in "Xue Xi Yu Tansuo," Issue No 5, 1984, RENMIN RIBAO, 6 July 1985 and JINGJI ZHANWAN, Issue No 1, 1985.

### Statistical Bureau Assessment of 10 Years of Price Reform

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[Article by Zheng Jingping (6774 0079 1627), Li Yeping (2621 0048 1627), Liu Qiusheng (0491 3264 3932), and Zhang Chaowang (1728 2600 3552) of the State Statistical Bureau's National Economic General Office, and the Urban Socioeconomic Survey General Office: "Reviewing and Rethinking 10 Years of Price Reform"]

#### [Text] I. Review of 10 Years of Price Reform

Over the past 10 years China's price reform has roughly gone through two stages. The first was the early stage (1979-1984), when adjustment was made primary; the second was the later stage (1985-1988), when adjustment and release were integrated. In the first stage the state, with the primary goal of straightening out prices, carried out six price adjustments on a fairly large scale. It raised prices of agricultural and sideline products and in the products of basic industries such as the excavating industry and the raw materials industry to a large extent. In this stage the general level of prices basically rose only a little. In the second stage the state began to lay particular emphasis on changes in the price-forming mechanisms, taking simultaneous measures to adjust prices in a planned manner by different forms that released prices to different degrees, and it made three fairly large strides. After releasing the prices of small commodities, the state released the prices of some light and textile industry products, the prices of bicycles and other durable goods, as well as the prices of well-known tobacco products and alcoholic spirits; and it made several attempts to release the prices of pork, vegetables, and other nonstaple foodstuffs. It could be said that the "dual track pricing system" for means of production reflected the special characteristics of this period of China's price reform, when price adjustments and price deregulation were integrated. By 1988 the percentage of commodities whose prices were fixed by the state had fallen markedly. In the total amount of agricultural

products sold by the peasants, the proportion of that part on which the state fixed prices (included add-on prices) from 67.5 percent in 1984, had fallen to about 20 percent in 1988. In the total amount of society's consumer products sold retail, the proportion of that part on which the state fixed prices from 73.5 percent in 1984, had fallen to about 30 percent in 1988.

### II. Basic Judgment on 10 Years of Price Reform

A. Over the past 10 years China's price reform has made marked progress, and has played a positive role in developing the national economy.

1. Achieving three breakthroughs. In price theory, breaking through the convention of not acknowledging the regulatory role of the law of value on the disposition of resources. The state began to consciously make use of the role of price mechanisms. In price policy, breaking through the bonds of the passive policy to stabilize prices, which had been pursued for a long time, of "not moving the general but adjusting the individual," the state began to make structural adjustments. In price management, breaking through the pattern of centralized management, single price form, and the enterprises not having the right to fix prices, the state put into practice a system of multilevel price fixing and the coexistence of many price forms.

2. Initially mitigating four big contradictions. First, the contradiction in which price differences in the exchange of industrial and agricultural products tended to be large was initially mitigated. For 10 years, through means of adjusting higher and initially releasing the purchasing prices on part of the agricultural and sideline products, the purchasing prices on such products have been raised by 1.47 times, while the total index of the retail prices on industrial products in the rural areas has only risen 38.5 percent. The amount of agricultural products exchanged for industrial products on average increased 76.6 percent. Second, the contradiction of the parity of the prices of products of the excavating industry and the raw materials industry on the one hand and the prices of the processing industry on the other, tending to be low was initially mitigated. Over the past 10 years the prices of the products of the excavating industry and the raw materials industry have respectively risen by 1.16 times and 83.3 percent, but the prices of the products of the processing industry has only risen 54.89 percent. This plays a positive role in accelerating the development of energy, raw materials, and other "bottleneck" industries. Third, the contradiction in which the various price differences on commodities of the same type tended to be low, particularly the tendency in quality price difference to be low, was initially mitigated. Now the price differences of high-quality, high-priced commodities of the same type have expanded a dozen times. Thus, the competitive principle that the superior wins and the inferior is eliminated is fairly well reflected, and it played a fairly distinct role in improving product quality. Fourth, the contradiction of excessive centralization in the price management system was initially mitigated.

The enterprises' and the localities' right to fix prices on products went from nothing to something, from small to big. This creates conditions for the commodity producer and manager to use the price lever.

#### B. After Going Through 10 Years of Exploration, Price Reform Faces a Severe Test

1. The ascent of the general level of prices and price reform accompany each other. In these 10 years China's retail price index rose 72.6 percent, an average annual increase of 5.6 percent. In 1979 the state issued an increase in the purchasing prices of agricultural and sideline products and in the retail prices of eight kinds of nonstaple foodstuffs, including meat, poultry, eggs, vegetables, milk, and aquatic products, which was the first stage of an increase in the retail price index; in 1980 the level of the national retail prices was 6 percent higher than that of the previous year. In 1985 the state directed the freeing up of prices of nonstaple foodstuffs, including pork and some vegetables, and freed the prices of some products of the light and textile industries, which was the second stage of an increase in the retail price index; in 1985 the general level of national retail prices rose 8.8 percent compared with that of the previous year. In 1988, because the prices of industrial products in some large cities were adjusted in an overly-centralized manner, state and local governments successively increased retail prices of main nonstaple foodstuffs including meat, eggs, vegetables, and sugar, and universally freed the prices of 13 kinds of well-known tobacco products and well-known alcoholic spirits, and adjusted the prices of some well-known superior-quality color television sets. Thus the retail price index, which had seen fairly large rises in three successive years, rose again, reaching 18.5 percent, the highest record since the founding of the PRC. It is undeniable that the price reform is not the essential reason for the price rises. However, under the circumstances in China, in which society's total demand greatly exceeds society's total supply, currency issuance lacks tough restraints, and mechanisms raising prices by comparison still exist; thus, the structural price adjustment really forms a direct predisposition for price rises.

2. Irrational parities are coming back. On the one hand, after the prices of the products of the basic industries like the excavating and raw materials industries "took precedence" in rising, they have begun to "lag behind." And in the prices of the products of the processing industry, there has appeared a momentum for fast rises. In the first stage of price reform, the prices of the products of the excavating, raw materials, and processing industries rose respectively 7.6, 4.0, and 1.4 percent; in the second stage of price reform the annual rises were respectively 8.1, 9.7, and 9.2 percent, with the prices of the processing industry quickly catching up. If the situation continues to develop like this, the parity of the prices of the excavating, raw materials, and processing industries is bound to go back to what it was before price reform. On the other hand, prices are an effective lever for regulating

the disposition of resources, and are still far from meeting the appropriate requirements.

The profits tax rate on the funds of the communication, energy, and raw materials industries, which need to be strengthened, has been raised little, and in some industries the situation in this respect has worsened. Of eight basic industries—metallurgical, electric power, coal, petroleum, building materials, forestry, railroad, and posts and telecommunications—only three have reached or exceeded the average profits tax rate, and in the remaining five the rate is far lower than the average profits tax rate, among which there has already appeared fairly serious losses in the coal industry. Of five processing industries—chemical industry, machinery, foodstuffs, textile, and papermaking—the rate in four of them exceed the average profits tax rate; in the foodstuffs industry, where the rate is the highest, the rate exceeds the average profits tax rate by 1.5 times.

3. Prime management is still irrational. First, the state's price management organizations lack the necessary authority; second, the price regulation and control measures are not flexible enough, and they are still in the stage of making administrative intervention primary; third, the management of circulation links is weak; and fourth, there is a lack of powerful supervisory and inspection mechanisms, and there is not vigorous punishment of actions that violate the price policy.

#### III. The Reason That Price Reform Has Fallen Into a Predicament

The reason that, during the 10 years of price reform, it has fallen into the predicament of "parities going back and the general level climbing high" is many-sided. Generally speaking, it is because we overlooked the fact that China is still in the initial stage of socialism. Often standing on the height of the growth of the developed countries' commodity economy and market, or standing on the pattern of the traditional centralized and unified planned economy, to observe or deal with China's price reform, the designer and implementor of many plans were divorced from a series of essential characteristics in the initial stage of socialism in which the level of productive forces is low, the commodity economy is not developed, and various economic systems exist side by side. Specifically speaking, there are five main reasons:

1. *The economic environment for "straightening out price relationships" is now fairly poor.* The so-called straightening out price relationships means that the government adjusts the price parities between and within industries, in line with certain standards, so that they become rational. To achieve this goal, the basic requirements are: the regulator and controller are able, in a timely manner, to acquire comprehensive, abundant information about the fixing of prices—the production and administrative activities of the industries are fairly standard. But China's current situation is that industries' production and administrative activities are highly unstandardized. Between industries and between state-owned, collective,

township-town, joint venture, foreign capital, and private enterprises, the differences in competitive conditions are wide; in the course of reform there have been extremely big changes in the economic environment. What is more troubling, is that it is difficult for China's present information collection and transmission system to provide the government with timely information about the fixing of prices; thus, the enterprises' cries for regulating them have become important factors. The raising of prices by one enterprise is bound to cause a chain reaction. As for an enterprise's administrative activities, once losses appear (or its profits tax rate is lower than the average profits tax rate), the reason for them, if not found within the industry, will be found in the outlet of raising prices.

2. *Price-forming mechanisms are not yet sound.* Price-forming mechanisms include the state's macroeconomic regulation and control organizations and the fairly integrated market system. After reform and opening up to the outside world, there was a fairly rapid development of China's commodity economy, but the market system remained extremely undeveloped. With the exception of the consumer market, the funds, technology, labor services, information, and creditor rights markets are in the embryonic stage, and a socialist unified market is even further from being realized. On the one hand the enterprises have not yet taken responsibility for their own profits and losses, and also have not yet achieved free circulation; some enterprises still wait for state subsidies to get by. Thus, prices cannot have their normal effect of acting as a signal [for the market]. On the other hand, in the existing markets, rules are unclear and order is confused. In addition, other economic mechanisms, administrative measures, and various unethical standards have intruded upon commodity exchanges, creating confusion among the effect normal supply and demand has on prices and the countereffect of prices on supply and demand, which leads to a distortion in the price signal. In addition, the horizontal and vertical relationship between the state's regulation and control organizations are far from straightened out, and their means of controlling prices are extremely lacking in vitality.

3. *Latent contradictions, which have been accumulating for a long time, are breaking out along with new, unbalanced contradictions.* Before reform, China mainly had a supply system in which there were low funds, low prices, and ration cards. A lot of attention was paid to balance in the form of general quantities—finances, credit, materials, and foreign exchange—and many compulsory measures were adopted. There was a fairly good balance between society's overall supply and demand. However, in the aspect of satisfying the people's material and cultural demands, there were "accounts outstanding." The peoples' lives have improved very slightly, and the phenomenon of rampant black market dealings in commodities and ration tickets implicitly shows the contradiction of economic shortages. Reform enlivened administration of the enterprises, but because the reform

measures were not complete and the macroeconomic regulation and control measures did not catch up in a timely way, while the recessive contradictions were exposed, new, unbalanced contradictions in supply and demand appeared. This intensified the degree of shortages. The gap between society's total supply and society's total demand has constantly widened. The supply-demand differential rate rose from 4.6 percent in 1983 to 16.2 percent in 1988. Society's surplus purchasing power rapidly accumulated, and by the end of 1988 it had sharply increased to 550 billion yuan, an expansion of 10.4 times over that of 1978. The large financial deficit and the excessive expansion of currency also made the danger of inflation a reality. In the 10 years of reform, the grand total of China's financial deficit reached 64.8 billion yuan; if, in accordance with international practice, internal and external debts are deducted, then the deficit is as high as 170.8 billion yuan. The high deficit forced the banks to overissue currency, and the grand total for the 10 years of net currency put into circulation is more than 190 billion yuan. At the end of 1988, the yearend amount of currency in circulation on China's markets reached 213.4 billion yuan, an increase by more than nine times over that of 1978.

4. *Impatience for quick success in reform.* In the first stage of the price reform, the state took a cautious attitude toward price rises. The grand total of the six years from 1979 to 1984 was a rise of 17.7 percent in the level of retail prices, an average annual rise of 2.8 percent. After 1984, in order to adapt to the reform of the urban economic system, governments at all levels accelerated the pace of price reform. In this stage, because the serious inadequacy in the development of China's price-forming mechanisms was ignored, as well as the reality of the sharpening of the contradiction between supply and demand, prices of some commodities were released too quickly and in too centralized a manner, with the idea of "running the blockade" in one dash. In addition, under the influence of the "theory that inflation is harmless," for a while the controls on prices were relaxed, and a timely, corresponding, complete set of measures to harness them were not taken. Thus, in four short years, the general level of retail prices rose 46.6 percent, an average annual increase of 10.0 percent, a higher than average level.

5. *The "dual-track pricing system" caused the market price and the plan price to stimulate each other into spiraling upward.* The "dual track pricing system" is a product of carrying out price reform step by step, in an orderly fashion, under the circumstances in which China's energy and raw materials can neither be supplied without limit at the low plan price, nor where the low plan price can be quickly released. The designers of the "dual track system" originally intended, by setting an example with the market price, as well as restraining the plan price, under the conditions in which excessively large price rises were not caused, to make the two prices gradually become one, taking a new path in carrying out price reform for products for which the supply did not

meet the demand. However, this reform met with the strong opponents of "authoritative commodity transformation." In addition, with the serious shortages in raw materials and energy created by the overheating of the economy during these years, the "dual track system" not only could not achieve the reform's original intent, but, on the contrary, became one of the important contributing factors for the skyrocketing price levels in recent years. The rise of the market price put pressure on the rise of the plan price. Once the plan price rises, the market price also naturally rises, giving rise to a situation in which they stimulate each other into taking turns in rising. In addition, the products inside the plan change to products sold outside the plan. Inferior products are used to fulfill the plan, while superior products enter the market in a "parallel track" phenomenon; there is also an enhanced tendency for suppliers to hoard for speculation—all of which accelerates the rise of the price level.

#### **A Rough Train of Thought on Deepening Price Reform**

We think the price reform is a piece of complex systems engineering. Speaking of the general goal, it should be to establish a price system in which the state regulates and controls the prices for a minority of the important products and labor services, and in which the prices of the great majority of products and labor services depend on market regulation, forming a system in which regulation and release are integrated. Speaking of its course, it is a long-term, gradual process. Speaking of the way, it certainly cannot be a single breakthrough, but should be done in joint coordination with the reform of the entire economic system. We should now pay particular attention to the following questions:

1. *Price reform must form a complete set with the reform of the economic system, neither overtaking it nor lagging behind it.* Price is one of the important levers of the operating mechanism in the socialist planned commodity economy. However, price reform is only a subsystem of the reform of the economic system. The crucial factors in the price system itself—the macro regulation and control mechanism, the microeconomic components for standardized action, and the sound unified market and market rules—are the important parts of the reform of the economic system. Thus, price reform must proceed by looking at the reform of the entire economic system, neither overtaking it nor lagging behind it.

2. *Vigorously but safely, and advancing in small steps, we must think of achieving the general goal of price reform in which release and regulation are integrated, and the greatest difficulty facing us is handling well the relationship between reform and price rises.* Over the past several years, because the macroeconomic parameters of society's total supply and demand, finances, credit, materials, and foreign exchange were seriously out of balance, there was higher than average inflation, which, without a doubt, increased the degree of difficulty in price reform. However, only through reform of the economic system, including price reform, can we extricate ourselves from the current plight in which the economic structure is

unbalanced. Therefore, we must take a positive attitude toward price reform, not losing the opportune moment to carry out some necessary and possible reforms, using the method of advancing in small steps, and, under the conditions of insuring that the size of the price rises is not excessively large (less than 10 percent), step by step, approach the general goal of price reform and in the end attain this goal. In this way we can both insure the smooth carrying out of price reform, while not overexceeding the capacity of the state, enterprises, and masses of people, which would lead to social turbulence.

3. *Transform the "dual track system" by promoting what is beneficial and abolishing what is harmful.* Actual economic activity shows that the "dual-track pricing system" has already become one of the important pre-dispositions for the rise in the general level of prices. However, with the current serious shortages in important means of production, the relationships between many large and medium-sized state-run enterprises still depend on the plan to affect coordination. Thus, immediately eliminating the "dual track system" can only cause greater chaos, which is not too realistic. Thus, we can only adroitly guide action according to circumstances, making use of its strong points and avoiding its disadvantageous side. First of all, we should strengthen macroeconomic control and severely punish those who use price differences to violate law and discipline. Next, we should distinguish different situations, gradually enlarge the proportion of negotiated prices on the market, and narrow the excessively wide gap between the plan price and the market price. Finally, we should abolish the "dual track system."

4. *Price reform must be advantageous for the readjustment of the industrial structure.* At present the prices of the products of China's basic industries still tend to be low, and there are individual industries in which there is an all-industry loss. Thus, we should gradually raise the prices of the products of these industries in order to eliminate the restrictions of "bottleneck" industries. However, the rises in the prices of the products of these basic industries will directly affect the processing industry, the light and textile industries, as well as the people's daily life, will cause a chain reaction of price rises and impel the entire price level to climb higher. Also, most of these industries are monopolies, and are industries in which there is little elasticity between supply and demand. Therefore, the way to solve the problem of their low profits tax rate is: 1) gradually raise the prices of their products; 2) increase input and open up new resources; and 3) improve administration and management, tapping potential from within. In this way we can achieve the goal of keeping the price level within the stipulated limit and of enhancing the position of the basic industries. Similarly, in the adjustment and management of prices of the products of other industries, full consideration should be given to the restraining nature of resources, thereby making the price mechanisms display a greater effect in the readjustment of the industrial structure.

5. Put price management on the legal system's track, so that it has laws on which to depend. Price regulation and release on the one hand, and price management and supervision on the other, supplement each other. We formulate legal articles and relevant legal procedures for prices that suit the national condition, so that all quarters have laws on which to depend. We must strengthen the supervision and inspection of market prices and estimates, and severely crack down on illegal acts of cheating to corner a market, driving up prices, arbitrarily raising prices, and arbitrarily collecting fees; and effectively safeguard the normal socioeconomic order and the interests of the consumer.

## PROVINCIAL

### Shanghai's Economy for 1990's Discussed

90CE0055A Beijing LIAOWANG [OUTLOOK] in Chinese No 9, 26 Feb 90 pp 4-6

[Article by Wu Fumin (0702 1788 3046) and Li Zhiyong (2621 1807 0516): "Shanghai: Entering the 1990's With Confidence"]

[Text] In 1990, Shanghai the economic giant will march boldly toward the goals of greater prosperity and development. In this period of economic improvement and rectification, it is certainly no time to do little, much less nothing. The forces, readjusted and built up, will prove all the more explosive and powerful.

#### Overall Strategy

Shanghai, determined to "restore its past glory," experienced rigorous tests in the 1980's, but maintained steady economic growth. In 1989, it set three new records: It earned more than \$5 billion in foreign exchange through exports; its total industrial output value exceeded 112.5 billion yuan; and it turned over 12.5 billion yuan plus an additional contribution of 400 million yuan to the state.

The first two years of the 1990's are years in which to further improve the economic environment, rectify the economic order, deepen the reforms, and lay a solid foundation for steady economic development, and what we do in the first year will make the difference between success and failure.

At the turn of the 1980's, and going into the 1990's, the Shanghai Municipal CPC Committee and the Municipal Government set forth the overall objectives for the 1990's and the general work plan for 1990. Roughly speaking, Shanghai will actively pursue a policy of "readjustment, rectification, management, and reform" and strive to achieve the goals of "improving the agricultural efficiency, readjusting the industrial structure, rectifying the circulation order, strengthening urban administration, deepening the structural reform, and opening wider to the outside world," so that Shanghai's economy can achieve greater stability with the improvement of the economic environment and rectification of the economic order, higher efficiency with the structural readjustments

and strengthening of management, and further development through the in-depth reforms and expanded opening to the outside world. In implementing this plan, the demand of the municipal party committee and municipal government on themselves is: to act resolutely and steadily.

#### Efforts To Increase Returns on Agricultural Investment in the Suburbs

Shanghai's economic structure is characterized by "big industries in small suburban areas," but the municipal party committee and municipal government have made winning bumper agricultural harvests a high priority in economic work. At the close of the last and the beginning of the new year, Zhu Rongji [2612 6954 1015], Shanghai municipal party committee secretary and mayor, led the first group of cadres to the rural suburbs to conduct an investigation and study. It was certainly not accidental. Since the municipal government launched the "shopping basket" project, 50 percent of pork, 80 percent of vegetables, 90 percent of poultry and eggs, and 100 percent fresh milk consumed by Shanghai citizens have been supplied by the suburbs. "To the people food is all important." Agricultural stability in the suburbs is undoubtedly the foundation of Shanghai's economic, political, and social stability. The production targets set by the municipal government for grain, cotton, edible oil, and nonstaple foodstuffs are higher in 1990 than in 1989. Particularly eye-catching is the target for cotton production, which has been raised by 32 percent.

At present, Shanghai's agricultural investment totals 1 billion yuan each year, which is used for water conservancy works, land reclamation, and construction of vegetable and nonstaple food production bases. How to achieve better results on the investment is a major concern of the municipal government. A new measure has been adopted in 1990 to set up a "leading group for the management of agricultural development funds" to strengthen the overall planning and use of agricultural investment funds. The key to agricultural improvement lies in securing greater support for agriculture from the big industries and vigorously popularizing agriculturally applicable scientific and technological achievements to "promote agricultural development with science and technology." Priority has been given to seven major agricultural technological development projects including "opening up new feed resources, improving the quality of mixed feed," etc., and the popularization and application of 10 agricultural technological achievements including "superior varieties of rice, wheat, edible oil crops, corn, and integrated high-yield technology," etc.

#### Major Move in Readjusting the Industrial Structure

As a major industrial base of China, Shanghai's economy is predominated by industry. The key to continuous, steady, and coordinated development of the economy as a whole lies in maintaining a suitable growth rate and raising the efficiency of industrial production. In 1990,

Shanghai plans to achieve a total industrial output value of 117.1 billion yuan, maintaining the momentum of a four percent increase over the last year, and calls for the state-owned industrial enterprises to grow by two percent.

Due to the influence of a series of uncertain factors such as market, funds, raw and semifinished materials, etc., production of all industries in all areas has generally dropped. Under the circumstances, it is very difficult to reverse the falling trend. On the question of growth rate, Shanghai's guiding principle is use all means to prevent major fluctuations, particularly major slumps in industrial production in the first quarter. This is because the failure to maintain a certain growth rate will have an adverse impact on financial revenues, foreign exchange earnings through export, the supply of essential goods for the domestic market, and the stability of society as a whole. Shanghai has made careful arrangements beforehand to provide the energy, goods, and important raw and semifinished materials needed in the first quarter and has also started work to promote sales and unclog circulation channels to insure a good beginning for industrial production in the 1990's.

Proceeding from the overall situation of national economic development, Shanghai has appropriately readjusted its industrial development strategy. The petrochemical and iron and steel, basic raw and semifinished materials and industries will be expanded moderately to help reduce the problem of "making bricks without straw" for Shanghai's processing industries. The construction of a modern 300,000-ton ethylene plant is largely completed, and the plant's entire technological process will begin operation in April this year, to produce close to 1 million tons of synthetic materials and industrial chemicals and radically change the picture of raw materials supply for Shanghai's light and textile industries. The metallurgical industry's new thin-sheet and medium-plate facilities will be basically completed in 1991, which, plus the development of special steel and special wire stocks, will upgrade the variety and quality of iron and steel products. The power stations, consisting mainly of 300,000 kw of thermal power units, 300,000 kw of nuclear power units, and 600,000 kw of supercritical power units, and the auto industry, will continue to grow and will bring all related industries to a higher level. The light and textile industries are major foreign exchange earners, and they should reduce and even eliminate products, which cost a lot of foreign exchange to produce but earn little in return, and switch to products which can earn more foreign exchange. At present, Shanghai's textile industry is earning \$5,200 in foreign exchange per ton of fiber exported, as compared to \$6,600 and \$8,800 respectively for South Korea and Japan. Shanghai will strive to raise it to \$5,500 to \$6,600 in the next few years through the structural readjustment and increase the utilization rate of resources. In 1990, Shanghai will limit or eliminate 108 products, which will reduce total industrial output value by eight percent, but, at the same time, 100 new products will be introduced,

each with an annual output value of 5 million yuan or more, and the new products will make up 12 to 14 percent of Shanghai's total industrial output value.

A major move to be taken by the Shanghai Municipal Government in readjusting the industrial structure in 1990 is to form about 10 big enterprise groups, oriented to the international market and based on the need for large-scale production, create good conditions and space for them to grow and maneuver, close the "fingers" into a "fist," and thrust it into competition in the international market. Mayor Zhu Rongji, vice mayor in charge of day-to-day operations Huang Ju [7806 5468], and Vice Mayor Gu Chuanxun [7357 0278 6064] have gone to the textile, light, and chemical industry systems respectively to conduct investigations and studies and listen to opinions. Most of Shanghai's industries have two or more similar famous-brand products competing against each other. There are Everlasting and Phoenix bicycles, Forever and Hero fountain pens, Swan and White Elephant batteries.... They may look strong in Shanghai's local market, but, in the face of fierce domestic and international competition, they all appear to be weak but continue to compete among themselves. The fact that Shanghai's old Three Five brand clocks have fallen behind Yantai's North Star clocks is a bitter lesson to be learned. Businessmen aspiring to take part in the international division of labor and secure a place in the international market have awakened to the fact that the situation seriously hinders efforts to upgrade products, and they are making a conscious effort to overcome the feeling that "it is better to be the head of a dog than the tail of a lion" and are getting united as groups. Seventeen exporting and foreign-exchange-earning enterprise groups, including those of chlorine-alkali, tire, clock, bicycle, umbrella, textile-ornament, electric wire and cable, medical apparatus and instrument, and other enterprises, are being formed.

#### More Orderly Urban Administration

In the 1990's, Shanghai will change from the country's largest comprehensive processing industrial city to an integrated, multiple-function, key economic city. This will be a result from improving the economic environment, rectifying the economic order, deepening the reform, and opening to the outside world. The role of Shanghai City will be fully recognized and developed.

People at home and abroad have found that Shanghai's "outward appearance" is improving. Shanghai's basic urban facilities had long remained backward, but finally made encouraging progress in the late 1980's. With the successive completion of the modern Shiliupu passenger wharf and the new Shanghai railway station, the largest in the Far East, and the renovation of the civil air terminal building, Shanghai looks good from land, sea, and air. Shanghai will also put an end soon to its "surface traffic only" history. A subway between the new Longhua and new Shanghai railway stations is now under construction day and night. First-phase preparations are being made in earnest for a traffic hub linking the two



sides of the Huangpujiang, and the situation of urban traffic is expected to improve. What pleases Shanghai residents most is that with the completion of the first phase construction of the water diversion project on the upper reaches of the Huangpujiang, the major urban water works have moved their water intakes from the heavily polluted lower reaches of the Huangpujiang to the middle reaches of the river where the water quality is better. Construction has also begun on Shanghai's major sewage management project, the Suzhouhe sewage convergence project. According to statistics, Shanghai spent more than 20 billion yuan in the 1980's to improve urban transportation, postal and telecommunications services, power, and other public utilities, twice the total amount spent on urban public utilities in the 29 years before the reform and opening to the outside world.

With limited financial resources, it is necessary to tighten control over all kinds of spending, and it is impossible to significantly increase the budget for urban public utilities construction in 1990. Another important way to improve the appearance of the city is to strengthen management. An "urban management committee" will be set up in 1990 to readjust and strengthen the organization and leadership of urban planning, construction, and management. The committee has overall control over the management of the city's appearance, sanitation, roads, buildings, tree-planting, commerce, and postal and telecommunications services. While each of these departments attends to its own duties according to a scientific division of labor, they also work in coordination under a unified plan. And, the initiatives of the city, districts, and counties will all be brought into play to build Shanghai into a prosperous and orderly great Eastern metropolis.

An important part of improving the economic environment and rectifying the economic order is to straighten out the order of circulation. Many new companies have mushroomed in Shanghai in the past few years, and most are in the field of circulation. Many of these "companies" have become "sinkholes," drawing from public funds and even government subsidies. Good progress is now being made in screening, rectifying, closing, and merging of companies. A first group of 400 companies have been closed down; 222 companies have been cut back on their scope of operations; and 74 companies have been removed from the wholesale business.

#### **Deepening the Reforms and Opening Wider to the Outside World**

On 2 January, at the beginning of the 1990's, a new joint venture, the Shanghai Dongfang Bulk Cargo Packing Company, Ltd, formally announced its establishment. It was a good omen for Shanghai's opening to the outside world. So far, Shanghai has approved the establishment of 695 of the three kinds of partially or wholly foreign-owned enterprises, bringing in nearly \$2.5 billion of foreign capital. Foreign investment in Shanghai has a success rate of more than 98 percent, the highest in the

country. The three kinds of partially and wholly foreign-owned companies now account for three percent of Shanghai's total industrial output value. About 85 percent to 90 percent of the goods produced by the technology-intensive industrial enterprises already in operation are up to or approaching international standards for similar products.

The Shanghai Municipal Government is confident that Shanghai's image is good to the outside world, thanks to the excellent geographic conditions, special historical backgrounds, and especially constantly improving tangible and intangible investment conditions. In Shanghai's Minhang Economic Development Zone, investors from more than 10 countries and areas, including the United States, Japan, Britain, and Hong Kong, have established 51 Chinese-foreign joint ventures. In the Caohejing High-Tech Development Zone, known as Shanghai's "silicon valley," 14 joint ventures have been established, and scores more foreign businessmen have arrived to talk about investment. The Hongqiao Economic Development Zone also has its own unique appeal. Not long ago, the Crow International Group, one of the largest real estate companies in the United States, decided to build an office building here on its own.

In the 1990's, Shanghai will direct its attention to the development of eastern Shanghai. Owing to transportation barriers, Shanghai has for more than a century developed mainly along the west bank of the Huangpujiang River. Now the 350-square-kilometer area on the east of the Huangpujiang and extending to the mouth of the Changjiang is included in the overall eastern Shanghai development plan, with nearly 100 square kilometers to be developed within this century. To provide eastern Shanghai with a gateway to the outside world, Shanghai Municipality and the Ministry of Communications have agreed to build a new harbor for the Port of Shanghai at Waigaoqiao at the mouth of the Changjiang, to be completed and put to use in 1993. Shanghai plans to establish an export processing zone according to international practice at the new harbor area.

With the central government's support, Shanghai is prepared to attract more foreign banks to set up offices here and is considering to expand and improve the Shanghai Stock Exchange to attract more foreign capital and develop Shanghai's financial institutions. To take greater advantage of foreign investment, Shanghai will also use the industrial policy to guide the flow of more foreign capital toward industrial enterprises, knowledge- and technology-intensive projects, construction of urban basic facilities, the suburbs, and development of new areas.

On the relationship between improving the economic environment and rectifying the economic order on the one hand and deepening the reforms on the other, the Shanghai Municipal Government's guiding ideology is very clear: Improving the economic environment and rectifying the economic order do not mean slowing



down, much less going backward, on the reforms. Many of the measures for improving the economic environment and rectifying the economic order are themselves important steps for deepening the reforms. Improvement and rectification need to be supported by reforms. In 1990, while deepening the reforms, Shanghai will focus its attention on enterprise reform, stressing that the in-depth reform of enterprises must be combined with the strengthening of management and that it is necessary to overcome the tendency to "substitute contract system for management" and to make management more efficient. At the same time, it is stressed that the theoretical research on in-depth reforms must not be relaxed, and that during the period of improvement and rectification, vigorous efforts must be made to prepare theoretically for the next phase of reforms.

In 1990, Shanghai will work on eight reform tasks including consolidating and improving the contracted managerial responsibility system for enterprises, continuing to promote the competitive bidding system, selecting the best qualified people for managers, further implementing the "two-line contracts" for industry and trade and the foreign trade agency system, encouraging large and medium-sized enterprises to earn foreign exchange through export, deepening the reform of the circulation system, strictly controlling the excessive growth of consumption funds, and speeding up the process of unemployment insurance and old-age insurance. At the same time, the various reform experiments now in progress, including the experimental operations of 18 enterprises without control, experiments on separation of taxes and profits, experiments on the supporting reform of the share system, and so forth, will be continued actively and steadily.

Strengthening and perfecting macroeconomic control is both an important content of the in-depth reforms in Shanghai in 1990 and an effective guarantee for achieving the goals of improvement and rectification. In view of the current problems in economic work that are the results of many causes and effects, and that, because the maladies are deep-rooted and cannot be cured by a single remedy, comprehensive remedial measures must be adopted, the Shanghai Municipal Government calls for all improvement and rectification measures to be introduced only after the pros and cons have been weighed and an overall balance has been struck, and to be active but without undue haste. The municipal government has decided to set up an "economic coordination office," which, in the light of the current pattern of multiple channels and sources of funds, foreign exchange, and goods and materials, will study and formulate measures and procedures to strengthen control over total supply and demand, strike an overall balance, and insure centralized and unified management, and will exercise tight control over prices. The municipal government has also decided to restore the labor wages committee to strengthen coordination and control of wages, bonuses, and subsidies for the whole city.

In the 1990's, Shanghai's economy is faced with tests and challenges as well as opportunities and hopes. Full of energy, the people of Shanghai have called out loud and clear: "Shanghai should make contributions to the whole country. Shanghai's people should all make contributions to Shanghai." Shanghai's prospects of greater prosperity and development are encouraging.

## FINANCE, BANKING

### Ratios of Revenue, National Income Viewed

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[Article by Yuan Zhenyu (5913 2182 1342), China People's University, Department of Fiscal Policy and Finance: "Thoughts on Raising 'The Two Ratios'"]

[Text] It was stated during the Fifth Plenary Session of the 13th CPC Central Committee that it will take three years or longer to basically complete the task of improving and rectifying the economy. One of the goals of improvement and rectification is to bring revenues and expenditures into balance and to gradually eliminate the deficit. If we are to achieve this goal, we must adopt appropriate policies and transitional measures. We must gradually bring within the budget funds that are now outside of it. We must gradually raise the ratio of state revenues to national income, and do the same with the ratio of central government revenues to overall revenues. This is an important issue which bears upon the question of whether China's economy will be able to maintain continued, stable, and coordinated development over the long term. This article intends to discuss a few ideas about the issue of raising "the two ratios."

### I.

When discussing and resolving the problem of raising the two ratios, one must first analyze the reasons why the ratio of state revenues to national income and the ratio of central government revenues to overall revenues fell during the ten years of reform.

In order to state the problem more clearly, it is necessary to clarify one thing: the issue of the ratio of revenues to national income is primarily a question of the criteria by which we define revenues. Within the current statistical framework, there are two different definitions of revenues. According to one definition, revenues include all debt revenues. According to the other definition, revenues include domestic debt revenue but not foreign debt revenues. I believe that when we calculate the ratio of state revenues to national income, domestic debt revenues should be excluded from revenues, just as foreign debt revenues are, because debt revenues are linked to the deficit and banking operations, unlike normal government revenues, such as taxes. Furthermore, fiscal price subsidies prior to 1985 were recorded as negative revenues, while they have been listed as expenditures

since 1986. It appears that it is more reasonable to list them as expenditures than to record them as negative revenues. For this reason, price subsidy figures between 1978 to 1985 have been added to revenue totals to

bring them in line with revenues as they have been defined since 1986. After making these adjustments, the ratio of state revenues to national income since 1978 are as described in Table 1.

**Table 1. Ratio of Revenues to National Income**

Year	National Income (billion yuan)	Revenues (billion yuan)	Ratio of Revenues to National Income (%)
1978	301.0	113.226	37.6
1979	335.06	114.716	34.2
1980	368.8	115.993	31.4
1981	394.0	117.579	29.8
1982	426.1	121.233	28.5
1983	473.0	136.695	28.9
1984	565.0	164.286	29.1
1985	703.1	203.834	29.0
1986	788.7	212.201	26.9
1987	936.1	219.935	23.5
1988	1153.3	235.724	20.4

Source: "Chinese Financial Statistics, (1950-1988)." The revenue figures here have been adjusted to conform to the definition described above.

In comparison with 1978, the ratio of state revenues to national income in 1988 had dropped by 17 percentage points. Such a large drop is not normal enough. It has not only affected the balance between revenues and expenditures, and caused deficits year after year; because revenues have always been in such short supply, it has also weakened the state's ability to exercise macroeconomic regulation and control.

The ratio of state revenues to national income dropped sharply during the course of China's economic reforms, so the cause of this drop is related to a series of reform measures which we have taken. The economic reforms began by readjusting the distribution of profits. There are three things which have had a relatively large impact upon the ratio of state revenues to national income.

One was big raises in procurement prices for agricultural sideline products. In reality, this represented a transfer of industrial and commercial enterprise profits to the agricultural sector. This measure played a large role in bringing the enthusiasm of peasants for production into play. Agriculture developed at a relatively rapid pace after 1979. National income created by the agricultural sector increased by a factor of 3.8 between 1978 and 1988 (from 98.6 billion yuan to 373.1 billion yuan), but because the state had adopted a policy of stabilizing the

burden on peasants, the benefits of increased production and income in agriculture went primarily to the peasants, while very little went to revenues. Taxes on agriculture and animal husbandry contributed 7.369 billion yuan to revenues, which was only 4.529 billion more yuan than in 1978.

The second thing that had a great impact upon the ratio of state revenues to national income was the readjustment of the distribution relationship between the state and enterprises (primarily state-run enterprises). Reform of the distribution relationship between the state and enterprises was consistently based upon the line of thought which called for decentralization of power and profits. Every time reforms took a step forward (from the implementation of various profit retention methods, to the switch to taxation instead of forwarding profits to the state; from taxation instead of profits, to the implementation of the enterprise contract responsibility system), it was at a cost—the state yielded a part of its interests. The result was that enterprises allocated themselves more and more financial resources every year. Let us consider the industrial sector, which is the primary source of the state's revenues. The ratio of revenues from this sector vis-a-vis national income created by this sector was 56.8 percent in 1978, but had fallen to 31.6 percent by 1987. Revenues from this sector accounted for 75.4 percent of total state revenues in 1978, but this figure had fallen to 56.9 percent by 1987. See Table 2.

Table 2. Revenues From the Industrial Sector

Year	National Income Created by the Industrial Sector (billion yuan)	Revenues from the Industrial Sector (billion yuan)	Ratio of Revenues from the Industrial Sector vis- a-vis National Income Created by the Industrial Sector (%)	Ratio of Revenues from the Industrial Sector vis- a-vis Total Revenues (%)
1978	148.7	84.507	56.8	75.4
1979	162.8	86.938	53.4	78.8
1980	180.4	89.735	49.7	82.7
1981	184.0	89.236	48.5	81.9
1982	194.8	94.419	48.5	84.0
1983	213.6	104.755	49.0	86.0
1984	251.6	116.911	46.5	77.8
1985	316.3	119.446	37.8	64.0
1986	375.3	126.760	35.5	56.1
1987	426.2	134.852	31.6	56.9

Source: "Chinese Financial Statistics, (1950-1988)"

These data are corroborated by the fact that funds outside the state plan in state-run enterprises and responsible departments have increased every year. In 1978, there were 25.261 billion yuan of funds outside the state plan in state-run enterprises and responsible departments, and this figure had increased by a factor of 7.2 (to 181 billion yuan) by 1988.

Another aspect of the increased retention of income by enterprises is the fact that subsidies in recent years for unprofitable enterprises have risen relentlessly, reaching 44.646 billion yuan by 1988. According to the current budgeting system, this type of subsidy is treated as a negative revenue. A chunk of revenues has also been eaten up by such enterprise practices as pre-tax loan repayments and using taxes to repay loans. In 1978, pre-tax loan repayments and using taxes to repay loans only involved 1.191 billion yuan, while the figured had jumped by a factor of 24.9 (to 29.692 billion yuan) by 1988.

The third factor which had a great impact upon the ratio of state revenues to national income was a series of measures taken to raise the income of workers and staff. The average pay of all workers and staff in 1978 was only 615 yuan, while it had increased by a factor of 2.37 (to 1459 yuan) in 1987. The scope of the increase in pay for workers and staff exceeded that of labor productivity. Let us take the industrial sector as an example. In the 26 years from 1953 to 1978, the ratio between pay increases for workers and staff versus productivity rises only exceeded 1 in 1956, 1958, 1962, and 1971. In the nine years from 1979 to 1987, there were four years in which this ratio exceeded 1. In 1986, the ratio was 3.12:1.

During the implementation of the reforms described above, national income began to be shunted off toward enterprises, workers, staff, and peasants. This caused a decline in revenue elasticity (it fell below 1), and the ratio of state revenues to national income dropped. Of

course, our economic work in the past never really got on track in a way that focused on raising economic benefits to the state. Benefits even declined in some cases. The impact of this situation on revenues should not be underestimated. To continue with the example of industrial enterprises, the tax rates and share of profits from funds dropped from 25 percent in 1979 to 22.6 percent in 1988, and tax rates on profits from sales fell from 26.8 percent in 1979 to 18.7 percent in 1988.

We should understand the sharply declining ratio of state revenues to national income from two different angles. On the one hand, the drop in the ratio of state revenues to national income was foreseen. Given the fact that agricultural production had developed very slowly for a long period of time, the state had stifled enterprises with excessively unified leadership, and the standard of living for workers and staff was very low, the various reform measures since 1979 which have readjusted the interest relationships have been correct in their orientation, and significant results have been achieved. Even though serious inflation has arisen in China's economic life, when one considers the main aspects of the situation, this period has had seen some of the best economic development since the founding of the nation, and this is directly related to a series of reforms involving distribution. From this perspective, the drop in the ratio of state revenues to national income during the last ten years has been a huge price which we have had to pay in the area of revenues in order to support the reforms. To a certain extent, this declining ratio was reflection of the foreseen objectives of revenue policy. On the other hand, it was not foreseen that the ratio of state revenues to national income would drop so sharply. This is closely related to mistakes we made in actual measures taken to carry out reforms. First, during the course of reforms, we did not properly handle the relationship between incentives and restrictions. We improperly stressed and exaggerated the role of material interests, while overlooking the need to restrict enterprises, workers, and staff. The result was

that the desire of enterprises, workers, and staff to maximize their own interests grew stronger and stronger, giving rise to a certain inelasticity of interests. Vested interests could only be maintained and strengthened, never pared down. As pressures of all sorts impinged upon revenues from all sides, and reform measures multiplied, revenue difficulties grew worse by the day. Second, we were anxious for instantaneous success with reforms. Some reform measures were introduced too hastily and were executed too rapidly. Not enough importance was attached to the ability of revenues to absorb these changes. For example, a step-by-step process is required if we are to make enterprises become independent commodity producers and commercial operators, and if they are to implement autonomous commercial operations and take responsibility for their own profits and losses. However, we were very anxious to achieve this goal, and even used tax reductions and profit yielding as the main tactic by which to achieve it. The result was that once the dam had been breached in the area of reducing taxes and yielding profits, the gap grew larger and larger, and financial resources grew daily more scattered. Third, in setting macroeconomic policy, we lacked sufficient understanding of the proper role of revenues in economic and social development. There was a tendency to weaken fiscal policy work. It cannot be denied that this was a deep, underlying cause of the drop in the ratio of state revenues to national income.

The ratio of central government revenues to overall revenues shows signs of dropping. This problem involves the policy (already set) by which we decide how to divide revenues between the central and local governments, and it is therefore different from the ratio of state revenues to national income. The primary reason why the ratio of central government revenues to overall revenues has dropped is that we have improperly strengthened local fiscal authority, added to local fiscal resources, and implemented various types of fiscal contract systems. As revenues have failed to keep pace with rises in national income, and the central government's share of revenues has dropped, the central government's revenue situation has grown increasingly worse. During the ten years from 1979 to 1988, local governments only experienced deficits in three years, while the central government suffered a deficit in every year but 1985, when there was a tiny surplus. In China, the central government's fiscal policy occupies a position of primary leadership, and it bears primary responsibility for macroeconomic regulation and control. As the central government's fiscal resources are extremely limited, it cannot pursue flexible fiscal policies in order to maintain economic stability and growth.

## II.

It will not be easy to make the ratio of state revenues to national income rebound very far. In this regard, there are two problems of understanding which must be resolved. The first one involves our understanding of the functional role of fiscal policy in a planned commodity economy, particularly the issue of whether fiscal policy

should address matters of investment in production and construction. There are different views on this question in theoretical circles, and a tendency to weaken fiscal policy has already arisen in actual work. If this problem is not resolved, it will become a serious obstacle to raising the ratio of state revenues to national income. Reform of the system of economic management has forced the function of fiscal policy to change in a manner corresponding to changes in the state's economic management function. However, China's fiscal policy absolutely cannot be limited to satisfying the normal public needs of society; it must also perform the task of distributing part of construction funds. Of course, it is not the same as in the past, when it controlled the distribution of all production construction funds; rather, its primary task is to meet the need of key construction programs for construction funds, since these have an impact upon the overall economic situation. This is required both to assure that the national economy long term, continued, stable, and coordinated development, and to meet the requirement for rational allocation of resources and raised economic benefits to the state. Since this is so, the ratio of state revenues to national income should not be too low, but should be maintained at a proper level. The second problem involving our understanding of the issue at hand has to do with the question of whether vested interests can be tampered with. In the course of reforms, interests have become inelastic. No one has been willing to give up any advantage once it has been gained. In many cases, the interests of the state have been sacrificed in favor of those of enterprises, workers, and staff; overall, long term interests have been sacrificed in favor of narrow, short term interests. Therefore, if we cannot touch vested interests, it will be virtually impossible to raise the ratio of state revenues to national income. Among vested interests, there are rational and irrational ones. We must acknowledge and protect rational vested interests, but we must make a determined effort to readjust irrational ones.

After the problem of understanding has been resolved, we need to adopt a series of measures to concentrate financial resources to an appropriate degree, and we need to readjust the distribution of national income. If we retain the current distribution situation as it is and limit ourselves to strengthening tax collection, it is true that losses in revenues will be reduced and more funds will be collected, but this would not fundamentally resolve the problem. Perhaps this raises the question of whether, by readjusting the distribution of national income, we are turning back from the road of reform. I feel this represents not a turning back, but a necessary correction of certain mistakes which have been committed in the course of reform in order to assure that the reforms will move forward in more healthy manner. Stated in another way, the best way to uphold the correct orientation of reform is precisely by readjusting distribution.

So how do we readjust distribution? The Fifth Plenary Session of the 13th CPC Central Committee stated that

we must attach importance to agriculture, support agriculture, and develop agriculture, so not only can we not raise the revenue burden of peasants, we must increase agricultural inputs. Therefore, readjusting distribution is mainly a matter of readjusting distribution relationships between the state, and enterprises, workers, and staff.

From the perspective of the distribution relationship between the state and enterprises (mainly state-run enterprises), the current tax burden of state-run enterprises is generally heavier than it is for collective enterprises or individual entrepreneurs, so it would not be acceptable to raise the tax burden for enterprises. This would only put state-run enterprises at a competitive disadvantage. Since enterprise taxes cannot be raised, readjustment of interest distribution is primarily a question of how to improve and perfect the contract management responsibility system now in place. One way is to readjust excessively low contract base numbers. Since the state is in a relatively difficult fiscal position, enterprises should accord top priority to the interests of the state and the overall situation. Instead of focusing on struggling with the state over profits, they should obtain more profits by raising economic output. Another way to improve the contract management responsibility system is to give the state a greater proportion of increased local revenues. There is nothing to criticize if an enterprise retains an appropriate share of excess profits, but that does not mean that enterprises are supposed to get the lion's share, much less get it all. A third way to improve the contract management responsibility system is to switch from pre-tax contracting to after-tax contracting. The current contracting method includes income taxes in the contract, which means that income taxes exist in name only. Not only is this disadvantageous to the establishment of a tax system, it has reduced the elasticity of tax revenues. Pre-tax contracting goes against the orientation of the reforms, which call for profits and taxes to be dealt with separately. This situation should be corrected. One problem that will be encountered in switching from pre-tax contracting to after-tax contracting is that some enterprises are not left with much profit after paying income taxes. To deal with this, we can consider reducing the income tax rate to an appropriate degree. A fourth way to improve the contract management responsibility system is to switch from pre-tax loan repayments to after-tax loan repayments. In reality, under the pre-tax loan repayment system, the state uses its fiscal resources to help enterprises repay their loans. This not only has caused the loss of revenue, but has also aided the excessive expansion of investment. It is easier to drop the pre-tax loan repayment method with new loans; the problem is how to handle old loans. This is a very delicate problem. We might consider dealing with various loans differently depending on the situation of the enterprise in question. With enterprises which do in fact have the ability to repay their loans, we should insist that they use after-tax profits to repay them. Enterprises which are insufficiently able to repay their loans could continue repaying part of the loans before paying income taxes, or part of their loans could be

forgiven. For enterprises which are definitely incapable of repaying their loans, these loans could be entirely forgiven. These losses would be absorbed by state fiscal resources and the banks. In addition, we can also consider having enterprises repay their loans by purchasing government bonds. Furthermore, if enterprises merge, the new enterprise could repay the loan from after-tax profits. A fifth way to improve the contract management responsibility system is to rectify tax reductions and exemptions, control the range of enterprises eligible for tax reductions and exemptions, and strictly prohibit arbitrary reductions and exemptions. The tax burden of enterprises will not be made any heavier if we can do this, but the arbitrariness of policy will be greatly reduced, policies will be more predictable and effective, and revenues will become more elastic. However, in order to lighten the burden upon enterprises, after we have adopted these measures to increase revenues, we must rectify the currently chaotic distribution order, in which government organs requisition funds and charge fees in an arbitrary manner and try in 1001 ways to get money from enterprises.

Viewing the problem as it relates to the distribution relationship between the state vis-a-vis individual workers and staff, it is apparent that, given the requirements occasioned by the past few years of tight budgets, we should strictly control wage raises in order to accomplish the task of improvement and rectification. Above all, we must take action to control indiscriminate awards of bonuses and material goods. It is not just enterprises which hand out material goods; administrative and institutional units frequently give out material goods, too. This has caused expansion of consumption, and has disrupted circulation order. For this reason, I suggest that we adopt strict measures and clearly stipulate that no enterprise or work unit shall hand out material goods. More importantly, we must further perfect the system of collecting and managing regulatory tax on personal income. The current cutoff above which taxes are collected is too high, and the actual tax base is too small. This prevents this type of tax from playing the role of organizing revenues or regulating income distribution, and it is not conducive to inculcating the idea of paying taxes. Therefore, I feel that we should lower the minimum income level at which regulatory taxes on personal income are to be collected so that almost all people who earn wages or salaries will have an obligation to pay taxes. If 200 million workers and staff pay one yuan in taxes per month, we could collect more than two billion extra yuan per year. As the income level of residents gradually rises, revenues from personal income regulatory taxes could be expected to rise further. Although tax collection costs can be somewhat higher over the short run, in the long run it will have been worth paying a certain price to lay a good foundation. In particular, we must strengthen our oversight and control of personnel in certain companies, certain people who are involved in "a second line of work," owners of privately run enterprises, and some individual industrial and commercial entrepreneurs. As we protect their legal income, we must

resolutely cut off their illegal income. As for those which engage in serious tax evasion, we should mete out heavy punishment and must not make any loans to them.

### III.

It appears that it would be an oversimplification if we said that the only thing needed in order to raise the ratio of central government revenues is to readjust profit distribution between the central and local governments. In fact, this alone is unlikely to solve the problem.

The ratio of central government revenues to overall revenues in China is under 50 percent. This is an unusual phenomenon in any country, whether the system of government is federal or centralized; whether the

economy is developed or not. Let us consider the example of such advanced countries as England and the United States. In those countries, the ratio of central government revenues to overall revenues is above 60 percent, and it is actually over 90 percent in France! (see Table III) It appears that China's ratio of central government revenues to overall revenues is too low in comparison with these countries. Even in comparison with some countries in the Soviet Union and Eastern Europe, China's ratio of central government revenues to overall revenues is still quite low. For example, this ratio in Hungary in 1981 was 87.9 percent, and in 1986 it was 88.3 percent; in Romania in 1981 it was 89.2 percent, and in 1985 it was 87.9 percent; in Poland in 1986 it was 84 percent.

Table III. Ratio of Central Government Revenues to Overall Revenues (%)

	1979	1980	1981	1982	1983	1984	1985
United States	63.3	63.4	64.4	62.8	60.7	60.2	60.1
England	86.2	86.4	86.3	86.1	87.3	87.6	87.9
Federal Republic of Germany	62.0	62.9	63.2	63.7	63.1	62.9	64.2
France	91.5	91.8	91.7	91.9	91.5	90.3	90.2
Sweden	70.6	70.2	70.6	70.4	71.2	72.3	73.2
Australia	77.7	80.0	78.6	78.4	76.3	76.1	79.1

Source: Calculations based upon figures in the International Monetary Fund's *Yearbook of Government Fiscal Statistics* (1987)

If we are to raise the ratio of central government revenues to overall revenues, we must resolve the issue of the proper boundaries of responsibility between the central and local governments. The reforms which have already been carried out have in reality strengthened the responsibilities of local governments and weakened those of the central government. In the past, the central government subjected local governments to excessive requirements for unified administration and excessive interference. This situation needed to be changed. However, excessive emphasis during the reforms on strengthening local fiscal authority and resources is a situation which deserves study. It is the central government, not the local governments, which takes primary responsibility in China for economic and social development. When we say that fiscal policy must take partial responsibility for production and construction funds, we are referring primarily to central government fiscal policy, not local government fiscal policy. Therefore, when we expand local fiscal authority and resources, we must do so only insofar as we can guarantee the effective exercise of macroeconomic regulation by central government fiscal policy. Reforms should strengthen the two ends, not the middle. What do we mean by strengthening the two ends? To strengthen one end refers to strengthening the central government and guaranteeing the guiding position of central government fiscal policy with regard to the distribution of fiscal resources. Strengthening the other end refers to strengthening enterprises and their economic vitality. The middle refers to local governments.

We must grant them a certain amount of authority and fiscal resources, but we cannot allow local authority and fiscal resources to be too great. Otherwise, it would give rise a situation similar to that in ancient China, when the various feudal princes vied with the center for power. This would make it difficult for the central government to achieve the goals of its macroeconomic policy. If we acknowledge the need to strengthen the responsibilities of the central government, then it follows logically that the ratio of central government revenues to overall revenues must be raised.

Raising the ratio of central government revenues to overall revenues is in reality a question of how to further reform and perfect the fiscal management system. The financial system has been reformed several times since 1979. One was the system of "dividing revenue and expenditure between the central and local governments and holding each responsible for balancing their budgets," which was implemented in 1980. Another was the system, implemented in 1985, of reallocating tax categories and setting revenues and expenditures, and then contracting out to each level of government. Another was the system of fiscal contracting. Every step of the way, the reforms have seen the central government yield authority and profits to the local level, and local governments have clearly benefitted. Particularly with the fiscal contract system now in place, the greater part of any increase in revenue is retained at the local level, which has caused a precipitous loss of elasticity in central government revenue. The situation is more difficult

every day. Therefore, these reforms cannot be considered very successful. When weighing the strengths and weaknesses of any fiscal policy, the main criterion should be whether it can assure the central government's ability to concentrate the necessary fiscal resources. If it cannot accomplish this, the question of whether this system is feasible is worth studying.

It would not now be appropriate to change the fiscal contract system, but there are a few measures we can take to maintain the relative stability of the financial system, and to assure that the central government will have the ability to concentrate the necessary fiscal resources. We can readjust contract base numbers and ratios in order to ensure that the central government's share of revenue increases will not be less than 50 percent. From a long range perspective, a relatively standardized fiscal management system in which different levels of government have different fiscal management responsibilities must be established. This is not

actually a demand that all local governments must balance their revenues and expenditures (i.e.—that their own revenues be sufficient to cover expenses). If that were the case, it would be impossible to concentrate the largest portion of fiscal resources with the central government. Assigning different fiscal responsibilities to different levels of government merely means that local governments at the various levels must carry out their own fiscal policy-related responsibilities independently, without excluding the possibility of local governments relying on the central government for fiscal resources. In countries where fiscal resources are highly concentrated in the hands of the central government, a considerable portion of the fiscal resources of local governments comes from central government subsidies. Thus, local government fiscal policy is fairly dependent on central government fiscal resources. (see Table IV.) We should make reference to these facts as we deal with fiscal relations between the central and local governments.

Table IV. Ratio of Central Government Subsidies to Local Government Revenues (%)

	1979	1980	1981	1982	1983	1984	1985
United States	24.3	25.2	25.1	22.3	21.3	20.9	20.5
England	48.5	46.8	45.8	43.4	47.7	48.8	48.7
Federal Republic of Germany	17.9	17.8	18.0	17.7	17.0	16.3	15.7
France	43.3	43.3	43.2	44.0	43.1	36.1	36.3
Sweden	26.3	26.0	25.8	24.1	23.8	24.0	22.8
Australia	57.7	57.2	56.9	55.6	55.4	55.9	58.3
Hungary			45.4	45.7	48.6	51.3	45.1
Romania	48.8	47.6	45.6	46.4	41.2	46.3	42.1

Source: Calculations based on figures in International Monetary Fund's *Yearbook of Government Fiscal Statistics* (1987). Figures pertaining to the United States, the Federal Republic of Germany, and Australia refer to their state governments.

If we are to establish an independent financial system in which every level of government is responsible for balancing its own budget, it will be necessary to divide revenues between the central and local governments in a rational manner. Given the fact that over 90 percent of revenues in China come from taxes, how to divide revenues is in reality a question of how to divide tax categories between the central and local governments. In view of the tentative plan to not necessarily make local governments rely completely on their own resources to balance revenues and expenditures, we must do two things when we divide tax categories: First, we must assure that the central government controls all primary tax sources, and we should make the ratio of central government revenues to overall revenues reach approximately 70 percent. Second, we must facilitate tax collection and management. In principle, tax categories which have a relatively large impact upon economic stability, resource allocation, and revenue distribution should be classified as central government taxes. The same holds for tax categories which generate revenues from sources that do not have an even pattern of geographical distribution. Among current tax categories,

the following should be assigned to the central government: product taxes, value-added taxes, tariffs, salt taxes, income taxes on state-run enterprises, income taxes on collective enterprises, income taxes on privately run enterprises, income taxes on individual industrial and commercial entrepreneurs in cities and small towns, income taxes on joint ventures, income taxes on foreign enterprises, personal income taxes, personal income regulatory taxes, resource taxes, special heating oil taxes, construction taxes, taxes on state-run enterprise bonuses, wage regulatory taxes on state-run enterprises, taxes on collective enterprise bonuses, and taxes on public institution bonuses. Tax categories which should be assigned to the local level include: sales taxes, market transaction taxes, livestock transaction taxes, taxes on agriculture and animal husbandry, real estate taxes, property deed taxes, stamp taxes, urban land use taxes, agricultural land use taxes, slaughter taxes, vehicle and boat use taxes, and urban maintenance and construction taxes. If inheritance taxes and gift taxes are collected in the future, they should be assigned to the local level as well. There are a couple of things that require explanation. Sales taxes have been classified as local taxes mainly to

assure local governments a relatively large and stable revenue source. Personal income taxes and personal income regulatory taxes do not involve a lot of money, but they have been classified as central government taxes because in the long run, as personal incomes rise, personal income taxes and personal income regulatory taxes will occupy an increasingly important position in the tax structure. In developed countries, personal income taxes almost without exception constitute the main source of revenue for the central government.

Once the revenues of the central and local governments have been divided in this manner, there may be very few local governments capable of balancing revenues and expenditures on their own. This problem can be resolved through central government subsidies to local governments. Of course, these subsidies cannot be set the way they are now, through bargaining between local governments and the central government. We must reduce the arbitrary nature of this procedure as much as possible and make it more scientific. We could find a way to take various factors into account as we determine subsidy levels for different areas. These factors would include: political, economic, and historical differences between different areas; population; per capita income; the level of public services; and the ability of different localities to raise funds. We could also consider establishing within the central government a specialized subsidy commission to study the issue and present a subsidy plan for every locality every year.

## INDUSTRY

### Xinjiang's Textile Industry Grows

OW0207063490 Beijing XINHUA in English  
0532 GMT 2 Jul 90

[Text] Urumqi, July 2 (XINHUA)—Textiles now rank right behind petroleum as the second most important industry in the Xinjiang Uygur Autonomous Region of northwest China.

Xinjiang has good supplies of cotton, wool, flax and chemical fibre. The region accounts for one-fifth of China's wool production.

To make full use of local resources, Xinjiang set up 12 key textile mills, in addition to smaller mills, in the 1986-90 period. At the same time, it also upgraded existing enterprises.

The region had 550,000 spindles last year compared with 310,000 at the end of 1985.

### Jiangsu Initiates Construction of Largest Caprolactam Plant

OW0307052990 Beijing XINHUA in English  
1334 GMT 2 Jul 90

[Text] Nanjing, July 2 (XINHUA)—Construction of China's largest caprolactam plant began in Nanjing,

capital of Jiangsu Province, today. Caprolactam is a type of extra-strong polyamide fiber. It is mainly used in making parachutes, plastics for engineering use and fishing nets. Being built by two Chinese companies and a Hong Kong company, the plant requires a total investment of 723 million yuan (about 154 million U.S. dollars).

An official in charge of the project said patents and major items of equipment are being imported from the Netherlands and the Federal Republic of Germany.

Upon completion in 1992, the plant will turn out 50,000 tons of caprolactam, equal to five times the present national output.

### Twenty High-Tech Zones Will Upgrade Industry

HK0307023390 Hong Kong HONGKONG STANDARD  
in English 3 Jul 90 p 1

[Text] Beijing is to create 20 high-tech development zones to upgrade industry, the first of which is under construction, according to an official from the State Commission of Science and Technology.

Shi Dinghuan, head of the commission's Industrial Technology section, said yesterday the high-tech zones would rely on domestic technology and resources.

They are to use the knowledge and expertise of China's high-learning institutes including those of the arms industry, for new industrial applications, he said.

The zones are to accept only high-tech industries, foreign or domestic, not labor-intensive businesses, he said.

They would not compete with the existing technological development zones in the coastal provinces, he said.

His commission is to liaise with the Special Economic Zone Office under the State Council which is in charge of the zones on the coast.

Mr Shi said regulations in these zones—stipulating preferential treatment such as lower tax rates and land leasing—would be drafted soon.

Generally, the high-tech zones would be funded and managed by local governments, and state commission help would depend on the type of industry, he said.

Mr Shi said of the more than 30 high-tech development zones, his commission is choosing 20 for preferential treatment, in line with Beijing's industrial policy.

The science and technology commission has approved the Chengdu high-tech development zone as one of these areas, according to the official ECONOMIC DAILY.

Located in the capital of Sichuan Province, the Chengdu high-tech zone is to develop such industries as micro-electronics, optical-fibre communications and nuclear technology from its former arms-industry base, the daily aid.



Zhang Jingwen, head of Chengdu's Municipal Commission of Science and Technology which is in charge of the zone, said yesterday provincial and municipal governments would help form its industrial conglomerates.

Such efforts would enhance the zone's competitiveness in attracting overseas capital and markets, he said.

## SMALL-SCALE ENTERPRISES

### Strategic Role of Township Enterprises Detailed

90CE0142A Beijing ZHONGGUO KEJI LUNTAN  
[FORUM ON SCIENCE AND TECHNOLOGY IN  
CHINA] in Chinese No 2, 18 Mar 90 pp 1-4

[First part of a speech by Vice Minister of Agriculture Chen Yaobang (7115 5069 6721), delivered before the National Conference on Township Enterprise Work, text edited by Mu Gongqian (4476 1872 6197): "The Strategic Significance Behind Developing Township Enterprises in China"]

[Text] Is China on the right course in choosing to develop township enterprises? This is the question many cadres have asked during the last year of improving the economic environment and rectifying the economic order. If we do not approach this question from the high plane of integrated theory and practice and come up with a definite answer, not only will we shake the confidence and determination of township enterprises that are attempting to overcome problems and extricate themselves from difficult situations, we may also adversely affect further improvement and rectification in township enterprises and keep them from entering a new phase of stable, healthy development. Consequently, to ensure that the spirit and intent of the Fifth Plenary Session of the Thirteenth CPC Central Committee is carried out, it is essential that we come to a new understanding of the strategic significance behind the development of township enterprises. First, the practical aspects have already been revealed. Developing township enterprises is the economic mainstay of our effort to achieve agricultural modernization in China, and it is the only way to attain rural economic prosperity. China's fundamental situation is one of overpopulation and scarce arable land: it is still a poor, developing nation in the initial phase of socialism. One of the most significant factors contributing to our poverty is that we have a population of 1.1 billion people, 870 million of whom live in the countryside, and that this rural populace averages less than 2 mu of land per capita. There has long been a two-part economic structure, in which urban and rural life have been set apart from each other. In the countryside people farm, whereas in the cities they are engaged in industry. In the countryside, moreover, there has been an undiversified economy, in which peasants are crowded onto limited land and the huge rural labor surplus has had no outlet. This has led to declining labor productivity and a very low per capita income. Right now 397 million of China's 537 million social laborers, or 73.9 percent, are rural workers, and there are only 3.7 mu of arable land

per laborer. Figured on the basis of per-mu agricultural returns, most of the peasants who grow grain, cotton, oil crops, and sugar crops—in fact all except a very few who grow specialized cash crops—do not prosper no matter what they do. As a result, we can imagine that if we continue to tie the rural labor force to this limited land, as population grows the area of arable land per laborer will continue to shrink and we will be unable to carry on any large-scale farming operations. Moreover, as the area of arable land per worker declines, it will be impossible to reap large returns to increase 'our investment in modern agricultural technology and equipment. If that is the case, how can we modernize agriculture? The facts show that given China's circumstances—a large population and scarce land resources, with peasants comprising the vast majority of the populace—if we are to increase our per capita annual income to \$800 to \$1000 by the end of this century, achieve the four modernizations, and attain a comfortable standard of living, one major problem we face is the need to find an outlet for the surplus agricultural labor force. Actually, this issue was raised early on by the classical Marxist-Leninist authors. Lenin once said: "The development of a commodity economy implies a growing separation between people and agriculture—that is to say, the industrial population will increase and the farming population will decrease."<sup>1</sup> Engels also said: "These individuals who have been squeezed out of agriculture must not be allowed to become idle or to converge upon the cities. We must see to it that they become involved in industrial labor in the countryside."<sup>2</sup> The development of township enterprises is a practical route, created under the socialist system, to provide an outlet for the surplus agricultural labor force, stimulate the rural economy, and advance agricultural modernization. Therefore, as early as August 1985, comrade Deng Xiaoping said: "Every year there are 7 million 17- and 18-year-old youths in China who are out of work. What can we do? China has found a solution: We must develop the township economy." Again, in 1986 he pointed out several times the achievements of rural reform: widespread integration between agriculture and industry, and great efforts to develop a diversified economy and township enterprises, have accommodated the rural labor force. This is one of the most significant points in our experience of success. In June 1987 Deng Xiaoping also said: "The development of township enterprises, primarily industrial enterprises, but also including other fields, has taken care of our 50-percent labor surplus....if we can say that the central government has had some success in dealing with this issue, it is that their policy of stimulation is headed in the right direction." Township enterprises are based upon agriculture and rely on agriculture to nurture them. Their initial investment comes from agriculture and they often begin in business by processing agricultural and sideline products. Right now they foster a labor system that is both worker and peasant in nature. As labor productivity rises, agriculture supplies more and more surplus workers for township enterprise development. These are the conditions that put pressure on the system, but that also result in growth. In this sense,

where there is no growth in agriculture there can be no township enterprise. But by 1989 the development of township enterprise had absorbed 92 million surplus rural workers, and the gross value of township enterprise output had increased to 60 percent of the gross value of output in rural society—up from 31 percent in 1978. Township enterprise has become a mainstay of the rural economy. In the past 10 years it has invested 68.4 billion yuan in construction on rural facilities of all sorts, including 16.28 billion yuan which has gone directly to farm aid or agricultural construction. This is approximately equivalent to 34 percent of China's total rural and agricultural investment during the same period. Precisely because of the growth of township enterprises and the expansion in the collective economy, villages in many regions were finally able to organize systematic services to peasant households engaged in production, thus further perfecting the output-linked system of contracted household responsibility and the bi-level economic structure. Centralized services have improved the spread of scientific and technological advances and raised output. Now, in some economically developed regions and city suburbs, it is also the growth of township enterprises that has simultaneously provided an outlet for surplus agricultural labor and supplied a large volume of profit for capital construction on farmland and for machinery and modern facilities to equip agriculture. This has promoted economies of scale on farmland and set agriculture on the track toward modern, large-scale production. Although there still are not many places that have the conditions necessary to take advantage of economies of scale, this nevertheless reveals the future of agricultural modernization. Thus, in both ordinary and developed regions, it is precisely the expansion of township enterprises that has, paradoxically, supported growth in agricultural production. At the same time, the spread of township enterprise has increased peasant income. In the past 10 years, 383.8 billion yuan in township enterprise salaries and profits has been distributed among the peasantry, accounting for 25 percent of the net increase in peasant incomes. In the past few years over half of the net increase in peasant incomes has derived from township enterprises. The jump in peasant incomes improves both living standards and agricultural investment. Therefore, we can say that without growth in township enterprises we cannot have rapid growth in agriculture. In addition, the expansion of township enterprises has promoted construction in small cities and towns, aided the development of rural educational facilities, improved the level of scientific and technical knowledge among the peasantry, strengthened consciousness of commodities, and brought forward a new style of peasant. These things are essential for achieving rural modernization. The facts clearly show that rural and township enterprises have formed the framework for the foundation and are the pillars of our rural economy. They condition each other, are interdependent, and develop together. Agriculture, the foundation of the rural economy, nurtures and supports the

growth of township enterprises, and they, in turn, support and advance rural reconstruction to achieve agricultural modernization. Therefore, it is an historical necessity for China to develop township enterprises, and they, in turn, provide us with the most important economic pillar of agricultural modernization. And it is precisely the development of township enterprises, the improvement in 'our level of agricultural modernization, the advance of construction in small towns, and the upsurge of educational and social welfare services that make rural areas prosper. Second, developing township enterprises is the only way we can achieve industrialization in China. Surveying economic development in the world's most advanced nations, we see that all have inevitably undergone the process of industrialization. And in the long historical process by which an agricultural nation is transformed into an industrial nation, each country follows its own pattern. For example, certain long-standing capitalist countries—England, for example—pillaged their countrysides and colonies on behalf of their cities, forced the peasants into poverty and reduced them to proletarian status to acquire the original accumulation necessary for industrial growth, and then achieved industrialization. By contrast, other nations, such as Japan, took advantage of the opportunity provided by changes in the international economic structure to develop an outward oriented posture and thus achieve rapid economic growth. Certain socialist nations, such as the Soviet Union, have relied primarily on concentrating their own financial resources into large-scale investment to achieve industrialization. These nations have all followed the path of urbanization and urban industrialization. In the 40 years since the PRC was established, socialist revolution and construction has achieved tremendous success and built a relatively comprehensive modern industrial system. The value of industrial output already accounts for 60 percent of the gross value of social output in China. However, the cold reality is that 79 percent of China's population is languishing in the countryside, and the vast majority of our labor force is concentrated on the land, engaged in farming. As a consequence, agricultural labor productivity is extremely low. Judging by the outward signs of industrialization, including the ratio of industrial output value, the percentage of industrial manpower, labor productivity, and the composition of nation income, China is still far from attaining the requisites for industrialization. However, China's national conditions also make it impossible to indiscriminately imitate the patterns of industrialization followed in the above-mentioned nations. Because China is a socialist nation, we cannot force the peasants into poverty or pillage outside resources to achieve industrialization. Moreover, because China is a relatively poor country, because we have a poor foundation to begin with, and because we have limited financial resources, it is impossible for us to rely solely on state investment to industrialize. We can imagine that in order to absorb excess rural manpower into industry, based on a state investment of 20,000 yuan per worker, it would cost more than 4 trillion yuan to accommodate the 200 million-plus surplus rural labor

force. This is approximately equal to 20 years worth of state revenues. Obviously, the state cannot come up with that much money. At the same time, if we move these surplus workers and their families into the cities, the influx of 500 million rural people into the cities would create a sharp jump in the urban population, and a whole series of difficult problems in housing, communications, living supplies, education, medicine and public health, and social welfare would arise, which would inevitably have disastrous consequences. Therefore, to resolve this weighty socioeconomic problem, we can only rely on stimulating the initiative and creativity of hundreds of millions of peasants. As we march toward agricultural intensification and expansion and the assurance of agricultural development, we must strive to develop township enterprises and opt to leave the land, but not the countryside, seeking work outside the cities. What is more, as far as the nation overall is concerned, a reasonable mix of industrial enterprises should include large-, medium-sized, and small enterprises. Different operating scales are required for different trades, products, levels of technological equipment, and enterprise organizational patterns. In fact, without the vigor and competitive strengths of small enterprise, or without the existing modernization or specialization of small enterprise, large enterprise might be less competitive and lose its basis for existence. In the economic development going on in the world today, small enterprise not only constitutes a kind of complementary or supplementary economy, it is also an economic form and essential economic factor that, within the overall economy, is truly on a par with, develops in concert with, and is interdependent with major industry. The coordination and mutual aid that goes on between township enterprise and urban industry in China thoroughly proves that implementing a system in which urban and rural areas, industry and agriculture, and industry and trade are regarded as organic wholes, is the method of modernization best suited to Chinese circumstances. Everyone realizes the positive role that urban industry plays by supplying technology, talent, equipment, and information for township enterprise, as well as by supporting township enterprise coordination. But we must also realize that township enterprise similarly has major effects on urban industry, as follows: 1) as urban industry evolves into high-tech industry, it needs to transfer certain products, technologies, and equipment, and more often than not looks to township enterprise to accept them; 2) because space and funding for urban industries are limited, and because we need diffuse, related products to increase economic returns, township enterprise must often assume the responsibility for producing such products; 3) we must rely on township enterprise to provide the energy, raw materials, primary processed goods, and accessories needed in urban industry; 4) the huge market needed by urban industry, particularly for over-quota goods sold at negotiated prices, is closely tied to purchasing power formed as a result of the growth of township enterprise; 5) the abrupt appearance of township enterprise as a competitive opponent has had a notable social effect in advancing

reform and increasing vitality in urban industry. In 1989 township enterprise output was valued at 513 billion yuan. This represents an increase from nine percent of China's total GVIO [Gross Value of Industrial Output] in 1978 to 30 percent in 1989. As comrade Li Peng pointed out in an address before the first session of the Seventh National Peoples Congress, the development of township enterprises has opened a new route to achieving a style of industrialization suited to China's special circumstances. Third, the development of township enterprises is the only way to increase China's economic clout. If we are to enable our socialist motherland to rank among the world's economically most powerful nations, in the final analysis we must increase our economic clout. In order to achieve the four modernizations and vitalize China, comrade Deng Xiaoping has designed a strategy—a "three-part melody"—in which China is to quadruple its 1980 GNP by the year 2000, reach a comfortable standard of living, and catch up with the moderately developed nations of the world by the middle of the 21st century. China's lack of economic development is rooted primarily in underdevelopment in the rural economy, where the gross value of social output per capita is equal to only one-quarter that of urban areas. If we do not repair this economic structure, composed of a developed urban sector and a lagging rural sector, it will not only restrict overall national economic growth, it will also set back the four modernizations. The sudden rise of township enterprises will prove decisive in resolving this weighty historic problem and bringing to fruition the historic task of strengthening the nation and enriching its people. The development of township enterprises not only has supplied a large volume of commodities for the nation, increased useful social supplies, and enriched the peasantry, it has also provided the state with significant tax revenues and created a large quantity of foreign exchange. In 1989 township enterprises paid 36 billion yuan in taxes to the state and created 10 billion yuan in foreign exchange. These figures constitute a significant proportion of China's total tax revenues and foreign exchange income, respectively. Moreover, township enterprises account for an ever-increasing share of growth in tax revenues and foreign exchange over the past few years. Obviously, the development of township enterprises not only has fundamentally improved the rural economic mix, it has also considerably bolstered China's economic clout; it has become a mainstay of the rural economy and an important component of the national economy. General Secretary Jiang Zemin, speaking recently about the strategic significance of China's township enterprises, incisively observed that further development of township enterprises is the only route to collective prosperity in the countryside. The role of township enterprise lies not only in using industry to aid agriculture and sidelines, it is also tied closely to large-scale urban industry and foreign trade exporting, as well as to agricultural and nonstaple food production. Without township enterprise, there would be no "moneybag," and not only would the "vegetable basket" and the "rice sack" fail, but there would also be an effect on

state financial revenues and export-produced foreign exchange. Consequently, given that we put significant effort into enhancing agriculture, we must also continue to encourage and guide healthy growth in the township enterprise system. The facts prove incontrovertibly that township enterprise, as a new force suddenly coming to the fore in China, is both the glorious product of the peasantry, and the product of the CPC, which has applied the basic tenets of Marxism-Leninism to Chinese socialist construction and thus enriched and developed Marxism-Leninism. The growth of township enterprise is an organic component in the effort to realize socialist modernization suited to China's special circumstances. As early as the 1950's, comrade Mao Zedong predicted the development of rural industry, and therein lies China's greatest, brightest, most splendid hope. To summarize, the growth of township enterprise is an inevitable result of historical development; it is a choice that conforms to China's situation. This is a great undertaking, a mass movement, a scientific enterprise, and a project in which we invest our fondest hopes. Realistically speaking, in this turbulent international environment, we must maintain stable development in China's socialist construction program, and right now we must also focus on maintaining a stable social and economic environment. In order to preserve national stability we must maintain rural stability; if the rural population of 800 million people is stable, the entire nation will be basically stable. We can imagine what it would be like if the 90 million-worker, 760 billion-yuan township enterprise system collapsed not even by half, but only by a third, and 30 million people returned to farming. Therefore, as we face the township enterprise issue, and as we improve the economic environment and rectify the economic order, we absolutely must take care to fully implement our policies of "active support, rational planning, correct leadership, and enhanced management," as well as our policies of "readjustment, rectification, reform, and improvement." We cannot turn readjustment into a process of wholesale cuts and reductions, turn rectification into a process of major criticisms and suspensions, or turn reform into a process of complete rebirth. Rather, we should carry out the party's policies completely and correctly, and, in compliance with state industrial policy, provide active support and guidance to ensure healthy growth in township enterprises. Of course, in the process of improving the economic environment and rectifying the economic order, we must also both "reduce the swelling" in township enterprises and close some businesses. This will provide a period of recuperation as we forge ahead, and it will aid healthy growth in township enterprises. It will help to improve overall quality in township enterprises and contribute to coordinated development in the national economy. As we cool off our overheated economy and reduce the scale of capital construction, it is inevitable that some construction workers will return to the countryside. In order to preserve overall social harmony, we need to make appropriate arrangements to handle this, including putting them to work in developmental agriculture and investing in capital construction on farmland.

## Footnotes:

1. *The Complete Works of Lenin*, Vol 3, p. 19
2. *The Complete Works of Marx and Engels*, Vol 19, p. 1, 369

**Regulations Issued on Township, Town Firms**

HK0106154090 Beijing NONGMIN RIBAO in Chinese  
4 May 90 p 2

[Unattributed report: "Regulations on the Contracted Management Responsibility System in Township and Town Enterprises"]

**[Text] Chapter One—General Principles**

Article 1. These regulations are formulated in line with relevant state decrees and policies to develop, complete, and perfect the contracted responsibility system in township and town collective enterprises (hereinafter enterprises) to protect the legitimate rights and interests of both parties involved in contracts and workers and staff members in relevant enterprises, to augment the enterprises' vitality, and to promote their healthy development.

Article 2. These regulations are applicable to township (district and town) and village collective enterprises, joint-stock cooperative enterprises, peasant-run collective enterprises in townships and towns, and other enterprises administered by departments in charge of township and town enterprises.

Article 3. The contracted management responsibility system refers to defining the relationships of responsibility, power, and interests in collective economic organizations and enterprises run by the working people, in the form of a contract on management responsibility based on the principle of separation of ownership from the right to management, under the prerequisite of adhering to socialist collective ownership by the working people. It is the operational and managerial system in the enterprises characterized by self-management, assuming exclusive responsibility for profits and losses, and self-restriction.

Article 4. The enterprise's nature of socialist collective ownership by the working people will remain unchanged when the contracted management responsibility system is implemented. The entity of working people running the relevant enterprise will continue to enjoy collective ownership of its entire assets (including those newly acquired in the wake of the system's implementation.)

Article 5. In implementing the enterprise contracted management responsibility system, the interests of the state, the collective, and the individual must be simultaneously taken into consideration to protect investors' rights and interests, to give play to the enthusiasm of enterprise managers and producers, and to tap internal potential. It is imperative to guarantee the state's tax revenues, to increase enterprise's accumulation, and to

realize dividend distribution to investors. Profits to be handed over to the contracting party must be guaranteed as stipulated in the contract, while the income of workers and staff members should be gradually increased.

Article 6. In implementing the enterprise contracted management responsibility system, it is imperative to adhere to the principle of linking responsibility to power and interest and to earnestly implementing the enterprise's autonomy in management and operation.

Article 7. In implementing the enterprise contracted management responsibility system, the contracting and contractor parties must observe state laws, decrees, and policies, and adhere to the socialist orientation, managerial style, and professional ethics in enterprise operations. They should be subject to the guidance and supervision of departments in charge of township and town enterprises and relevant departments.

Article 8. In implementing the enterprise contracted management responsibility system, it is imperative to upgrade the enterprise's quality in a comprehensive way, push forward progress in science and technology, continuously develop new technologies and products, and to improve product quality and economic results.

#### **Chapter Two—Content and Forms of the Contracted Management Responsibility System**

Article 9. The main contents and forms of the contracted management responsibility system are responsibility for: Production operation; tax and profit to be handed over to the state; retaining profits; product quality, technological transformation, and safety production; appreciation of fixed assets and circulating funds; implementing the linking of gross payroll to economic results; and responsibility for augmenting the building of socialist spiritual civilization.

The enterprise may decide on other contents that must be put under contracted responsibility based on actual conditions.

Article 10. Corresponding indexes must be included in the contract's contents. Indexes must be determined after scientific calculations based on the enterprise's production capacity; actual performance during the previous three years, especially the immediately previous year; the enterprise's potential for development; market forecasts; and the conditions of funds, while referring to the average standards for the same trade in the locality.

Article 11. In implementing the enterprise contracted management responsibility system, the main form should be contracted responsibility for the collectives; small enterprises with slim profits and enterprises suffering from deficits may implement other forms of contracted management responsibility.

Article 12. The contracting and contractor parties in the enterprise implementing the contracted management responsibility system may determine the method of profit distribution according to the enterprise's own

conditions. The practice of fixed profit volume, with proportional distribution of overfulfilled profit, or sharing the total profit, or linking rewards to profits, may be adopted. Such forms as contracted responsibility with profits, including bonuses and losses, can be implemented in small enterprises with slim profits and enterprises suffering deficits.

#### **Chapter Three—Enterprise Managers**

Article 13. In implementing the enterprise contracted management responsibility system, enterprise owners should adopt the method of openly calling for tenders when appointing the manager. Where conditions are not ripe, the methods of inviting applications for the job and recommendation may also be adopted in appointing managers.

Calling for bids may be conducted in or outside the enterprise. When a management group wins the bid, it must determine the manager of the enterprise undergoing the contracted management.

Article 14. Departments in charge of township and town enterprises at all levels should take an active part in creating conditions, gradually build a contractor market, provide enterprises seeking management contracts with information on calling for and submitting bids, to allow equal chances for competition of enterprise managers.

Article 15. The enterprise owner must assess bidders in a comprehensive way, selecting the fittest.

Enterprise managers must meet the following requirements:

1. Necessary educational background with professional or technological qualifications;
2. Necessary ability for enterprise management and operation;
3. Presentation of necessary property guarantee or guarantor; and
4. Other legitimate conditions proposed by the enterprise owner.

Article 16. Enterprise managers should be the enterprise directors (managers.) The enterprise implements the system of overall leadership by the factory director (manager.) The director (manager) is the enterprise's authorized representative, takes full responsibility for the enterprise, and exercises the enterprise's functions on its behalf.

Article 17. The enterprise managers may invite a certain number of personnel to take up posts according to the stipulated power allowed him to organize the enterprise's leading body, which will be disbanded when the contract expires.

Article 18. The enterprise manager must perform the relevant obligations as stipulated in the management

contract. During the term of contracted responsibility he should submit an annual report on the conditions of implementing the contract on management responsibility to the contracting and contractor parties and the enterprise general meeting for workers and staff members (congress for deputies of workers and staff members) during the term of the management contract.

Article 19. The annual income of enterprise manager may be double or four times the average income of workers and staff members depending on the conditions of completing the management contract; with especially great contributions and marked accomplishments it can be still higher. However, a ceiling should be fixed at six times the annual average income of workers and staff members. Other methods of reward may be implemented. Income of other members in the leading body should be lower than that of the enterprise manager. Income of those enterprise managers who have failed to fulfill management contracts can be cut back to a bottom line of half their salaries. Other members of the enterprise leading body should also bear corresponding economic responsibility.

#### Chapter 4—Management Contracts

Article 20. In implementing the contracted management responsibility system, the enterprise manager must sign a management contract on behalf of the contractor party with the contracting party.

The contracting party refers to the enterprise owners, whose representative is the board of the collective economic organization or enterprise; the contractor party refers to the enterprise under contracted management, with its representative being the enterprise manager.

Article 21. In signing a management contract, the contractor and contracting parties must adhere to the principle of equality, voluntariness, and negotiation.

Article 22. In signing a management contract, a written form is imperative. Documents and graphs of the revised contract, with agreements through negotiation between the parties concerned, are also component parts of the contract.

Article 23. A management contract should include the following clauses:

1. The form of contracted management;
2. The period of contracted management;
3. Volumes of fixed assets, and circulating funds;
4. Various contracted indexes;
5. Methods of maintaining factory buildings, equipment, transportation means, and other attached installations and their conditions at the contract's expiry;
6. The enterprise's retained profits and the employment of various kinds of retained profits and funds and the handling of liabilities and financial claims;

7. Methods of handling goods and materials and finished products in stock and products in processing when the contract expires;

8. Rights, interests, and obligations of the two parties concerned in the contract;

9. Responsibility for violating the contract;

10. Method of linking gross payroll to economic results and the principles and methods of rewards and punishments;

11. Conditions for changes and cancellation of the contract;

12. Other matters the contracting and contractor parties believe necessary to be included in the contract.

Article 24. The term of management contracts should generally be fixed between three and five years. The contract can be renewed if a good job is done in contracted management on the basis of the two parties' voluntariness.

Article 25. Management contracts are drawn up according to the law, namely, they possess legal restriction; neither side should alter or cancel it arbitrarily.

Article 26. The following management contracts are void:

1. Contracts violating state laws, decrees, or policies;
2. Contracts injuring collective, social, or public interests;
3. Contracts signed by means of fraud, coercion, force, or abusing power; and
4. Contracts transferring, partly or wholly, a management contract with mutual consent of the original contracting and contractor parties are void; contracts as such are void of legal restriction since the day of their signing. They will be abolished with the recognition of organs in charge of management contracts or people's justice courts.

Article 27. The management contract may be changed or cancelled if any of the following cases occurs:

1. If the state substantially changes its policies regarding types of taxes, tax rates, prices, and so on, the two parties, after consultation, may change or cancel the management contract signed between them.
2. If the management contract cannot be honored due to force majeure or any other external factors that are not preventable and cannot be blamed on any party, the two parties, after consultation, may change or cancel the management contract.

3. If the management contract is not properly performed because of dereliction of duty on the part of the contractor, the contracting party is entitled to demand cancellation of the contract.

4. If the contractor runs the contracted enterprise in such a manner as to exhaust its resources and fails to mend his ways by a deadline as requested by the contracting party, the latter may change or cancel the contract.

5. If the contractor cannot honor the management contract due to breach of contract by the contracting party, the contractor is entitled to demand a cancellation of the management contract.

Either signatory to the management contract, if demanding a change or cancellation of the contract, shall advise the other party in good time. In case the change or cancellation of the contract causes losses upon any party, the party responsible for the losses shall make compensation to the victim, except in cases where the responsibility can be remitted according to the law.

Article 28. In case disputes break out between the two parties of the management contract, the two parties shall seek to settle the disputes through consultation. If they fail to reach a compromise, either party can ask for arbitration by the organ administering management contracts or directly start legal proceeding with the people's court.

Article 29. Any party to the management contract refusing to accept arbitration may request the arbitrary organ at the next higher level to reconsider the case within 10 days of receipt of the arbitration advice. The arbitration by the arbitrary organ at the next higher level, or the first-instance arbitration which has not been objected to by the deadline for lodging applications for reconsideration and has thus come into force, shall be regarded as the final arbitration.

Article 30. If any party to the management contract implements [as published], by the corresponding deadline, the mediative decision or the arbitration which has already come into force, the other party may request the people's court to take enforcement measures.

#### **Chapter Five— The Rights and Duties of the Two Parties to a Management Contract**

Article 31. According to law, the contracting party enjoys the following rights:

1. Ownership of the enterprise's assets;
2. The right to decide the enterprise's operational orientation and mode;
3. The right to decide the appointment or form of recruitment of plant director/manager;
4. The right to decide the proportions for sharing of after-tax profits, through consultation with the contractor;

5. The right to supervise and examine the contractor's performance in implementing the state's laws, regulations, and policies and in using and protecting the enterprise's properties;

6. The right to supervise and examine the operation of the enterprise regarding recruitment and dismissal of staff members and workers;

7. Involvement in the enterprise's internal audit;

8. The right to resolve upon split, merger, move, suspension, termination, and bankruptcy concerning the enterprise.

Article 32. The contracting party shall perform the following duties:

1. Sort out the enterprise's assets and liabilities and note them in a book before contracting out the enterprise;

2. Confirm the enterprise's assets and liabilities when contracting out the enterprise;

3. After contracting out the enterprise, provide the enterprise with economic and technological information, assist it in exploring supply and marketing channels, in promoting other cooperative relations, and in overcoming any difficulties regarding production and management, and act as the enterprise's financial guarantor;

4. Safeguard the contractor's legitimate rights in accordance with the provisions of the management contract.

Article 33. The contractor enjoys the following rights in regard of production and management:

1. To possess and use the enterprise's assets, accept additional capital, take in new shareholders, and raise funds through other channels, in accordance with the state's regulations and the management contract;

2. To operate the enterprise within the limits prescribed by the state's laws, regulations, and policies concerned, and by the management contract;

3. To decide the enterprise's internal structure and staff size, to recruit and dismiss staff members and workers according to the regulations, and to fix the form of wages and other reward and punishment procedures;

4. To market the enterprise's products and set the prices of products or other service charge standards in accordance with the law;

5. To join trade associations on a voluntary basis, take part in product competitions, call for tenders, and make tenders, in accordance with the law;

6. To promote economic and technological cooperation and to make contracts with others in accordance with the law;

7. To exploit natural resources in accordance with the law;



8. To reject and fight against the practice of arbitrarily exacting charges and illegal fines.

Article 34. The contractor shall perform the following duties:

1. Observe the state's laws, regulations, and policies;
2. Undertake all the tasks prescribed by the management contract;
3. Establish and consolidate the regulations and systems governing enterprise operation, and to strengthen enterprise management;
4. Pay taxes according to law, turn over profits, and retain all types of funds as prescribed by the regulations concerned; pay off bank loans and other debts on time; and collect all bills receivable in good time;
5. Promote industrial safety, do a good job in labor protection and in protection of resources and the environment, and prevent and fight pollution;
6. Properly manage the enterprise's assets and do away with any practice of running the enterprise in such a manner as to exhaust its resources;
7. Promote technological progress, improve training for staff and workers, and enhance their political, cultural, and technical quality;
8. Show concern for the livelihood of staff members and workers, safeguard their legitimate rights, and submit to the supervision by the staff and workers;
9. Provide the contracting party with true information about the enterprise and regularly prepare financial and statistical reports.

Article 35. If the execution of the contract is affected because the contracting party fails to observe the management contract, the contracting party shall be held responsible for the breach of contract and the competent department in charge of the affairs of township and town enterprises at the upper level, in cooperation with other departments concerned where necessary, shall take administrative and economic action against the representative of the contracting party who assumes direct responsibility, in accordance with the seriousness of the case.

Article 36. A contractor failing to perform all the duties prescribed by the management contract shall be held responsible for the breach of contract and the competent department in charge of the affairs of township and town enterprises at the upper level, in cooperation with other departments concerned where necessary, shall take administrative and economic action against the operator of the enterprise, in accordance with the seriousness of the case.

#### Chapter Six—Administration and Supervision

Article 37. The contracted enterprise shall establish and consolidate the staff and workers' congress system and

earnestly safeguard the rights of its staff and workers in regard to the democratic management of the enterprise and their other legitimate rights.

Article 38. The contracted enterprise shall establish and consolidate its internal management responsibility system and improve internal management, namely, it shall:

1. Introduce the mortgage-for-risk system and establish a risk mortgage payment system;
2. Establish and consolidate the system of job responsibility and appoint personnel and define their duties according to the job requirements;
3. Properly carry out the internal contracting system within the enterprise, assign contracted quotas to each level, and consolidate the internal contracting and assessment system;
4. Implement the principle of distribution according to work, establish a reasonable form of reward for labor, and actively introduce the floating wage system which links remuneration to product quality, material consumption, and efficiency;
5. Implement the principle of streamlining and high efficiency and optimize the administrative staff structure and the productive staff structure;
6. Strictly implement the financial and accounting systems enacted by the Ministry of Agriculture and the Ministry of Finance and introduce uniform account books, categorized accounts, and textual statements;
7. Apply modern management methods to improvement of enterprise administration in light of the actual circumstances of the enterprise.

Article 39. The enterprise shall retain all categories of funds in full in accordance with the state's regulations.

In general, the enterprise shall keep not less than 60 percent of its net profits, most of which shall be reserved as the enterprise production and development funds, and the rest shall be allocated as the welfare fund and the reward fund.

Article 40. The contracting party shall tighten the internal audit and supervision in the enterprise and practice the audit system for year-end final accounting of distribution and the audit of accounts on the expiry of a management contract term.

The enterprise's chief accountant shall hold an "accountants certificate" issued by the competent department in charge of the affairs of township and town enterprises at the county level. The enterprise operator shall not arbitrarily reappoint the chief accountant who is to be appointed and removed by the enterprise's superior administrative organ.

Article 41. The enterprise practicing the contracted management system shall strictly abide by the state's policy on commodity prices and shall only set reasonable



prices for its products or service charges in light of market changes, within the limits of state policies.

Article 42. The competent departments in charge of the affairs of township and town enterprises at all levels, which are the superior organs of enterprises practicing the contracted management system, are responsible for guiding, administering, supervising, coordinating, and servicing the enterprises, in accordance with the state's laws, regulations, and policies.

#### Chapter Seven—Supplementary Article

Article 43. The right of interpreting these regulations resides in the Ministry of Agriculture.

Article 44. Competent departments in charge of the affairs of township and town enterprises of all provinces, autonomous regions, and municipalities directly under the Central Government, may formulate their own procedures for implementation on the basis of these regulations.

Article 45. These regulations shall come into force on the day of promulgation.

## CONSTRUCTION

### Doumen Bridge Project Completed in Guangdong

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[Text] Guangzhou (CEI)—The Doumen Bridge, located at the southern tip of the mouth of the Zhujiang River in Zhuhai City, Guangdong Province, was completed and opened to traffic on June 18.

Doumen Bridge stretches across the Dingxi River which is a tributary of the Zhujiang River. It is 1,118 meters long, 12.5 meters wide and 22 meters high. The bridge, which costs 40 million yuan, is a key project of Guangdong Province and the biggest construction project of Zhuhai City since a special economic zone was set up there 10 years ago.

With the completion of the bridge, the eastern and western parts of Zhuhai City are joined, linking up with the home towns of Overseas Chinese such as Taishan, Xinhui, Kaiping, Enping. This has improved the investment environment of Zhuhai City and the Zhujiang Delta.

## FOREIGN TRADE, INVESTMENT

### Criteria In Selecting Proper Foreign Debt Scale Discussed

90CE0130A Beijing JINGJI LILUN YU JINGJI  
GUANLI [ECONOMIC THEORY AND BUSINESS  
MANAGEMENT] in Chinese No 2, 28 Mar 90 pp 70-74

[Article by Wang Aijian (3769 1947 0313) of the Tianjin Institute of Finance and Economics: "China's Decision on a Foreign Debt Scale for the 1990's"]

[Excerpts] Utilizing foreign debt to speed up a country's own economic development is a common practice today and is also an important part of China's developmental strategy. Using this strategy, many developing nations have obtained advanced technologies, equipment, and resources with the help of international capital and have successfully narrowed the gap with the developed nations. But some countries have also been mired in international debt crisis upon borrowing heavily. A most urgent issue before us today is how to draw on the experiences of other countries and decide on a proper foreign debt scale and keep to that scale effectively. [passage omitted]

### II. China's Decision on a Foreign Debt Scale

Despite the experiences of other countries, there is no consensus on how large or how small China's foreign debt scale should be. It is my opinion that we should decide on our foreign debt scale based on three criteria: The [balance of] debt to GNP ratio, the debt to export ratio, and the debt service ratio. However, to determine the exact scope, we should reference the data base of other countries and then decide for ourselves according to our own situation. From this standpoint, I think we should accomplish the following before the year 2000:

1. The upper limit to the [balance of] debt to GNP ratio should not exceed 15 percent.

As explained earlier, the debt ratio is an index that primarily reflects the potential ability to repay a debt at a particular period of time and not the actual ability to repay. Looking at China's situation, this potential is determined by three factors: (1) The ability to come up with matching domestic funds: During all phases of construction and even during production of a project that utilizes foreign capital, we must come up with matching funds of our own. From now until the Eighth 5-year Plan period, China will continue to implement a tight money policy; there may be some easing during the Ninth 5-year Plan period, but it will not be a period of limitless expansion. In other words, funds will be tight for some time. (2) The foreign exchange and gold reserve situation: A country with a relatively abundant foreign exchange and gold reserve can afford a higher rate of indebtedness. But China's foreign exchange and gold reserve bases have always been very low (see figure 1). Although the foreign exchange reserve rose slightly in 1987, because of increased imports, it plummeted in 1988. China's foreign exchange and gold reserve situation is expected to improve but not by much before the year 2000. (3) The balance of payments situation: Except for 1982 and 1983, China has had a trade deficit almost every year since the Third Plenary Session of the 11th Central Party Committee (see figure 2). We must eliminate the trade deficit and achieve our balance of payments goal before the year 2000. In view of the above situations, and considering China's urgent need for foreign loans, the upper limit to the debt to GNP ratio should best be kept under 15 percent.

**Figure 1: China's Foreign Exchange and Gold Reserve (Year-end figures)**

Item	Unit	1981	1982	1983	1984	1985	1986	1987
Gold	10,000 ounce	1,267	1,267	1,267	1,267	1,267	1,267	1,267
Foreign Exchange	\$100 million	47.73	111.25	143.42	144.20	119.13	105.14	152.36

Compiled by the State Statistics Bureau

**Figure 2: China's Foreign Trade Deficits (in \$100 million)**

	Total Export	Total Import	Difference (+ surplus, - deficit)
1980	182.7	195.5	-12.8
1981	220.1	220.1	0
1982	223.2	192.8	+30.4
1983	222.3	213.9	+8.4
1984	261.4	274.1	-12.7
1985	273.5	422.5	-149.0
1986	309.4	429.1	-119.7
1987	394.4	432.1	-37.7
1988	475.4	552.5	-77.1

Note: Compiled by the State Statistics Bureau

**2. The debt to export ratio should not exceed 95 percent.**

The debt to export ratio is an index that better reflects a country's real ability to bear its debt burden. But this index should be adjusted properly according to specific conditions in this country. Here, the main factor we need to consider is the export composition. If primary goods make up the bulk of export commodities, the debt to export ratio should be adjusted downward. This is because the price of primary goods in the world market is falling relative to other goods and their foreign exchange earning capacity is weak. Meanwhile, the export of primary goods also takes away the raw materials needed in domestic industrial development and has an adverse effect on our own economic development. For these reasons, the increase in the export of primary goods is often constrained by various foreign and domestic factors. In particular, the export of agricultural products is very much affected by natural elements and is unstable, which can cause the debt to export ratio to fluctuate. Primary goods are making up an increasingly smaller percentage of China's total export, but they still account for 40-50 percent. For some time to come, competition in the world market will remain fierce, and China's effort to earn foreign exchange by exporting will be facing many unstable factors. Although it is hopeful that our nontrade foreign exchange earning may increase, the base is low and the volume is small. Under the circumstances, when we decide on our debt to export ratio, we should make allowance and try not to exceed 95 percent. During the 1985-1988 period, China's debt to export ratios have been 58 percent, 69 percent, 76 percent, and 90 percent, respectively. We are nearing the 95 percent caution mark.

**3. The debt service ratio should not exceed 20 percent.**

In determining China's debt service ratio, we should consider three major factors: (1) the current account in the balance of payments; (2) import inelasticity; (3) source of new funds.

(1) The current account in the balance of payments: Since 1985, China's foreign trade balance has shown a deficit several years in a row. Except for a slight improvement in 1987, most years showed substantial deficit in the current account after offset by nontrade items. This situation impairs our debt repayment ability. In particular, we must consider that our foreign export has shown signs of slowing this year. Although the situation has improved somewhat, it is unstable. Our nontrade income is also expected to be much lower, and the current account situation may further deteriorate and eventually may diminish our ability to repay our debts.

(2) Import inelasticity: If a country can significantly reduce its import without jeopardizing its national economy, it will have greater ability to repay its foreign debts, and in turn it can maintain a fairly high debt service ratio without risking a debt crisis. If its import is very inelastic and cannot be reduced, even without a high debt service ratio, its debt repayment ability is still impaired. Looking at the change in China's import-mix, it is much more inelastic in 1988 than in 1983. This is evident in the fact that the import of luxury goods has decreased and the import of basic raw materials used in agricultural production has increased. So far this year, partly because of the adjustment of the import policy, such as tightening control over the import of small cars, and partly because China's own industries are in gear, some of the imported goods have been replaced. The import of basic economic commodities that are import-inelastic, such as grain, agricultural means of production, raw materials, and advanced equipment needed in heavy and chemical industries, has been increasing in the last few years. If the import of these commodities is reduced, it will have a serious impact on China's economic growth and in turn may further reduce her ability to repay her foreign debts. Furthermore, a few years ago, China adopted a biased developmental strategy and put the investment emphasis on the finished goods department of industries that processed semi-finished products and brought in many advanced assembly-type production lines. We relied on imported parts and spare, and in particular, many of the parts or spare for the export

goods had to be imported also, and therefore their import could not be cut back.

(3) Source of new funds (including loans and investments): This is another important factor in assessing a country's ability to repay its debts. Since China opened up to the outside world, her international prestige has been steadily enhanced. Lenders and investors worldwide are optimistic about China's economic development and are willing to provide new funds. This increases our ability to take on more foreign debts. But because of the internal political disturbance last April to June, to some extent, international lenders and investors have temporarily lost confidence, and our international fund source has dried up substantially, making it very difficult to borrow new loans and repay old debts. This situation is expected to continue for some time.

To sum up the above, China's debt service index should be set at 20 percent. Looking at existing data, we have hit the 20 percent warning mark in some years (see figure 3.)

**Figure 3: China's Foreign Debt Principal and Interest Payments, 1985-1988 (in \$100 million)**

	Current Year Foreign Debt Principal and Interest Payment	Total Export	Debt Repayment Rate
1985	8.4	273	3 percent
1986	62.3	309	20 percent
1987	51.2	394	13 percent
1988	71.8	440	16 percent

Note: Export data supplied by customs office

### III. Controlling the Growth of Foreign Debts

It is not an easy task to keep China's foreign debt scale below the above-described warning marks. We must make an effort to resolve the following issues:

#### 1. We must formulate a long-term foreign debt plan.

Macroeconomic policy error is one of the main reasons why some countries are facing foreign debt crises. The serious foreign debt crises in Brazil, Mexico, Poland and elsewhere can be attributed to their overheated domestic economies and huge deficits which forced them to borrow heavily. In the late 1970's and early 1980's, those three countries formulated huge economic development plans. Their schemes were more than what they could handle; they had little funds at home and had to rely on huge foreign loans to sustain the high rate of economic growth. Around 1981, both Brazil and Mexico had deficits that equalled as much as 15 percent of their respective domestic output value, and 50 percent of the deficits were remedied by taking out foreign loans. Once a foreign debt crisis occurs, it often lingers for years, and the consequence can be serious. Take the debt crises in Brazil, Mexico, Poland and other heavily indebted countries, for example. Their problems will linger for another

decade or so. According to the loan terms, Brazil was supposed to repay \$12-15 billion in principal and \$9-9.6 billion in interest each year during the 1978-1982 period, but the country's total export in 1986 was worth only \$26 billion. Since Poland's foreign debt crisis erupted in 1981, although they have reduced imports every year to pay off their debts, the total debt still has grown from \$25.5 billion in 1981 to \$33.5 billion in 1986. According to World Bank experts, Poland's foreign debt problem will not be solved until the year 1993 or thereabouts. Brazil and Poland went into heavy borrowing for only a period of eight to nine years (1971-1980), but the adverse effects of debt repayment will linger for 15 years or so.

Drawing from the above lessons, China must promptly study and formulate a long-term foreign debt plan and determine the appropriate foreign debt scale, foreign debt composition, foreign debt direction, and repayment measures and so on for different periods and include this plan into the national economic development plan as a key component and change her shortsighted behavior in borrowing foreign loans.

#### 2. We must handle the relationship between self-reliance and foreign loans properly.

China's socialist system mandates that when she raises funds for her four modernizations, she cannot exploit and rob other countries, barter away her sovereign rights, or live on debts and depend on the charity of others. Instead, we must plant a foothold on relying on our own strength and uphold the principle of being self-reliant and utilizing foreign capital as a supplement. To be self-reliant is to believe in the superiority of the socialist system, to believe in and rely on our own people's creativity and spirit of hard work and arduous struggle for the prosperity of the country, and to make full use of our country's resources and social potential to move forward with the four modernizations. To emphasizing self-reliance in accumulating construction funds is by no means advocating closing our country to international intercourse. Everybody knows that a country cannot shut itself off from all contacts with other countries, including trade and credit contacts. The crux of the question is the right attitude and the correct principle in handling this kind of relationship or contact. Since the Third Plenary Session of the 11th Party Central Committee, opening up to the outside world, utilizing foreign capital, and bringing in advanced technologies and facilities have been China's basic national policy and the strategic means of speeding up her four modernizations. Today, in the wake of rapid development of the productive forces and science and technology and the opening up of world markets, international economic and technological relationships are more important than ever. Closing our country to international intercourse will not help us achieve modernization. On the principles of defending the country's sovereignty and of equity and mutual benefit, China must rely on foreign capital for her economic constructions, but she should keep the foreign debt scale to a reasonable level.

### 3. We need to increase efficiency in foreign debt utilization.

Increasing efficiency in foreign debt utilization is the root to controlling the foreign debt scale and enhancing our foreign debt repayment ability. First, we must insist that foreign loans are used only on production-oriented investments to increase our export capability. We must make better feasibility studies and establish a responsibility system for enterprises that borrow money. The profit generated by the investments must be greater than the cost of borrowing. Under normal circumstances, foreign loans should not be used on consumption or for remedying deficits, nor should they be used to make up for an inadequate foreign exchange reserve, so as to avoid more balance of payments problems. Second, we should make sure that the foreign loans and our domestic funds complement each other in total amount and in use. Fund coordination means we must increase total domestic accumulation. Utility coordination means making sure that funds are used properly. We should not only use foreign loans to finance better projects and leave the less desirable projects to domestic funds, because this will cause domestic accumulation and investment to shrink. Finally, when borrowing money from foreign countries, we should make sure that the investment will generate real benefits, but more than that, when we consider the need for foreign loans as the economy develops, we must keep the total amount of foreign loans within bounds and never overstep the boundary in practice.

### 4. We should strengthen the centralized management of foreign debts.

China is a socialist country. All foreign debts, whether borrowed by the central government, local governments, enterprises, or organs, are ultimately the state's responsibility. Foreign debt management is closely linked to the state's monetary credit, foreign exchange income, foreign exchange reserve and other financial policies. Therefore, it is essential that we strengthen the statistical management of all types of foreign debts, make foreign loan arrangement through various channels centrally, control the overall foreign debt scale, and choose the best loan structure. We should arrange to make principal and interest payments every year and further improve the foreign debt examination and approval process and the statistical analysis and monitoring procedure.

Today, the defect of eating out of the big pot which has long plagued China's economic system has spread to the foreign debt domain. Many units are eager to borrow foreign capital to finance projects but are not mindful of their debt repayment responsibility. As a result, everybody is taking out foreign loans with enthusiasm, but the state does not have a department to take responsibility for the centralized management of foreign debts. Because of the absence of a unified management center and the lack of policy guidance toward foreign loan utilization, redundant projects are being brought in

around the country—there are several hundred refrigerator and color TV production lines alone, and to keep these production lines operating, more foreign exchange is needed to import key parts and spare, and this means a heavier debt burden. At present, because of the shortage of foreign exchange, many production lines cannot operate at full capacity, and our debt repayment ability is jeopardized. For this reason, it is suggested that the State Council set up a "Foreign Debt Management Committee" made up of members of the State Planning Commission, the Ministry of Finance, Bank of China, People's Bank, MOFERT and other departments. The functions of the "Foreign Debt Management Committee" are: (1) To draw up China's long-term foreign debt development plan and related policies and coordinate various relations in obtaining foreign loans; (2) to utilize proper interest rate, exchange rate, reserve fund and other economic means to show preference for or to restrict certain types of loans; (3) to stipulate the interest rates and terms of new loans to avoid reckless and redundant borrowing, especially short-term loans; (4) to borrow money based on several different currencies and utilize interest rates and currency exchange measures to reduce the monetary and interest risks; (5) to centralize the refinancing policy and set up a debt repayment fund; (6) to further improve the handling of foreign debt statistics, accounting, and analysis tasks, improve the gathering of information that relate to foreign debt management, promulgate rules and regulations on foreign debt management expeditiously, and vigorously train foreign debt management specialists and provide the existing staff with vocational training.

### Advancing Shanghai-Soviet Trade

90CE0230A Shanghai SHANGHAI JINGJI  
[SHANGHAI'S ECONOMY] in Chinese No 2,  
30 Mar 90 pp 31, 27

[Article by Luo Baotai (5012 1405 3141), Shanghai Academy of Social Sciences]

[Text] In the past year there have been clear developments in Sino-Soviet bilateral economic and trade ties. These ties have followed the further deepening and expanding of highest level bilateral meetings and normalization of relationships between the two countries. Based on the objective needs of China's economic reform and opening to the outside world, we should put the development of Sino-Soviet economic and trade ties into an important place within China's overall opening with the outside world. Shanghai is China's largest coastal industrial city. It has the largest handling capacity of any Chinese port. With reference to opening to the outside world, we should further accelerate the development of economic and trade ties with the Soviet Union in order to meet the demands of reform in both countries and to satisfy the ever increasing material and cultural life needs of the people in both countries.

**Shanghai Has Potential for Developing Trade With Soviet Union**

Just as Premier Li Peng noted, opening up to the Soviet Union is a component part of China's reform and opening to the outside world. We must appropriately increase China's proportion of trade with the Soviet Union. China's actual situation demands so. In developing trade with the Soviets, Shanghai offers potential. First, Shanghai and the Soviet city of Leningrad are joined as friendly cities. On reciprocal terms, both cities have established consulate generals in each other's cities. In the past, there were numerous cultural, artistic, and people's groups exchanges between the friendly cities. At present the focus of work has shifted to the area of enhancing economic, scientific, and technical cooperation. Second, Leningrad and Shanghai are similar in the following respects: (1) both are major port cities of the two countries; (2) Both are the largest industrial cities of the two countries, offering relatively complete kinds of industries; (3) both cities have relatively great scientific and technical strengths, playing important roles in the economic growth of their respective countries. Third, there are many benefits for Shanghai to engage in economic trade with various large cities in the Soviet Union and Leningrad in particular: The Soviet Union possesses scarce raw materials needed for Shanghai's industrial development. It also has good and cheap consumer industrial goods that Shanghai lacks. For its part Shanghai has surplus industrial product production strength and rather great development potential. Both sides can make up each other's deficiencies and take care of surpluses on the basis of mutual benefit and profit. Fourth, the Soviet people love goods from Shanghai. Shanghai is China's old industrial base. It is very attractive to the Soviet Union. It exports a great percentage of light and textile products. Many of the items are new style, top quality, and high grade. As early as the 1950's they were known throughout the Soviet Union. In the past year, whenever Chinese products have been put on exhibit and sale in the Soviet Union, there has always been a rush to buy out products from Shanghai. It is said that daily use consumer goods welcomed by the Soviet people include thermos bottles, towels, bath towels, down clothing, connected full slips, and athletic shoes. Electronics products are also favored.

#### **How Shanghai Can Develop Economic Trade Ties With the Soviet Union**

Considering the Soviet Union's present domestic consumer product market situation, work could progress from the following several aspects:

First, the Soviet electronics industry is rather backward. It must be technologically transformed and revamped. Advanced technology and equipment must be introduced to revamp existing enterprises. The Shanghai civilian electronics industry offers a suitable base. It is entirely possible to dispatch technical personnel and transport advanced equipment to the Soviet Union to assist with technical transformation and revamping. At the same time, it can also set up joint enterprises with the Soviet side to develop the Soviet Union's electronics industry.

Second, Soviet light industries and food processing industries are both rather backward. Shanghai can exhibit its prowess in this regard. It can run joint enterprises on Soviet territory and process imported material on site. The Soviet marine fishery industry is tops in the world. However, fishery product processing technology is still backward while Shanghai offers advanced processing technology as well as numerous technically skilled workers. It can open fishery product processing plants in the Soviet Union. Besides supplying food to the people of China and the Soviet Union, their products could also be sold to third countries.

Third, there are ample resources in the Soviet Far East but labor is in short supply. Forestry and wood processing capability in particular are lacking, causing scarcity of Soviet paper pulp and paper supplies. Product quality is rather poor. Shanghai could send labor forces and transport equipment to develop jointly forestry resources and wood processing industries. In addition to meeting bilateral needs, there could be exports to supply third countries.

Fourth, in the Soviet Far East they are currently building a great number of plants and housing. Shanghai's construction technology is quite advanced. There are many construction workers. It is entirely possible to send them there to help build factories and housing. So doing would both fill in the Soviet labor shortage gap and can resolve Shanghai's excessive labor issue. Moreover, Soviet wages are quite high. This is an attraction.

Fifth, in some Soviet cities, particularly in the Far East, commerce and service industries are comparatively backward. On the other hand, Shanghai's commerce and service industries are rather developed. It has ample labor and could dispatch a group of people to the Soviet Far East or other cities to develop tertiary industries and commercial businesses that have Chinese characteristics, such as Chinese style restaurants, hotels, guest houses, and hospitals and clinics of both Chinese and Western medicine to promote acupuncture and moxibustion, massage, orthopedics, and other curative Chinese medical techniques to the Soviet Union. This would be of service in curing the illnesses of the Soviet people and building up their tertiary industries. Doing so could improve life services for the Soviet people and also play a role in resolving China's surplus labor issue.

In order to speed up the development of economic and trade ties with the Soviet Union, Shanghai must establish a joint development consulting company in Leningrad or other Soviet cities, enhance labor export work, accelerate the cultivation of Russian language talent and send more students to study abroad in the Soviet Union. It also must study how to open up marine transportation thoroughfares between Shanghai and [other] maritime powers.

**Curbs on Dangerous Exports Planned***HK0506021690 Beijing CHINA DAILY in English  
5 Jun 90 p 2*

[By staff reporter Qu Yingpu]

[Text] The State Administration of Import and Export Commodity Inspection began a three-day seminar in Beijing yesterday to formulate rules on the use of internationally recognized security labels and codes.

Starting from January 1, 1991, Chinese foreign trade inspectors will forbid the export of dangerous goods which are not stamped with security marks and special codes.

The seminar is also expected to propose new measures to further improve China's export packaging and transportation according to the International Maritime Dangerous Goods Code (IMDG code).

The IMDG code was passed in 1965 by the International Maritime Committee, and includes detailed regulations guiding the shipping and packaging of inflammable, explosive, poisonous and corrosive goods.

According to a decision made by the committee in 1984, all countries will have to meet the requirements of the IMDG code from January 1 next year.

In 1985 China started tough inspection on the growing export of these dangerous goods. During the past five years, Chinese inspectors have prevented the export of 2,000 consignments of such items, out of 50,000 lots, said Hao Xiaoling, an official of the State inspection administration.

Hao said that the strict inspections have meant China has been paying less and less indemnity because of poor packaging of dangerous goods.

The country's north port city of Tianjin, for instance, paid \$57.85 million in indemnities in 1985, but has not had to pay a cent since 1987.

During the last five years, she said, Chinese inspection bodies have drafted China's own regulations and measures according to IMDG code to block poorly packed dangerous goods from being shipped abroad.

At least two-thirds of China's provinces and municipalities had their inspection bureaux equipped with devices especially to inspect dangerous goods for export, Hao said.

**Foreign-Funded Enterprises Doing Well in Shanghai***OW1806225090 Beijing XINHUA in English  
1515 GMT 18 Jun 90*

[Text] Shanghai, June 18 (XINHUA)—The Shanghai Municipal Government approved 61 foreign-funded enterprises with a total investment of 67 million U.S. dollars in the first five months this year.

By the end of May Shanghai had approved 770 foreign-funded enterprises with a total investment of 2.574 billion U.S. dollars. The United States, Japan, Holland and Hong Kong are the leading investors in Shanghai.

More than 300 foreign-funded enterprises have gone into production. In 1989 they produced an output value of 3.597 billion yuan with profits and taxes of 1.143 billion yuan. They also exported goods worth 274 million U.S. dollars, 91.6 percent more than in the previous year.

Officials said that overseas investment has showed new trends this year: the emphasis of investment flow has shifted from services to manufacturing industries, from traditional industries to technology-intensive projects, from fast-return projects to infrastructure and from the city proper to newly developed areas.

Since the Chinese central authorities recently decided to open Shanghai's Pudong new development area to the outside world more than 600 groups of overseas businessmen have visited Pudong.

Meanwhile, the municipal authorities have said that 91 percent of foreign-funded enterprises are successful.

**Foreign Trade Developing Steadily in 1990***SK2206065290 Shenyang Liaoning Provincial Service  
in Mandarin 0930 GMT 21 Jun 90*

[Text] From January to May this year, the province continued to maintain the good trend of steady growth in foreign economic relations and trade. The total provincial volume of commodities purchased for foreign trade amounted to 4.187 billion yuan, an increase of 8.1 percent over the corresponding period last year; and the total volume of foreign trade and export amounted to \$1.999 billion, an increase of 5.4 percent over the corresponding period last year. At present, there are 860 Sino-foreign joint ventures, cooperative enterprises, and foreign-funded enterprises in the province, and 43 percent of them have formally gone into operation or started business. At the same time, the province newly signed more than 30 contracts on technological export, with the total sum reaching \$24 million. Since the beginning of this year, the export of labor has developed rapidly. A total of 7,200 workers have been exported to foreign countries, an increase of more than 30 percent over the corresponding period last year.

**Chemical Exports Rise Markedly in 4 Years***OW2706233590 Beijing XINHUA in English  
1405 GMT 27 Jun 90*

[Text] Beijing, June 27 (XINHUA)—China's chemical exports increased at an annual rate of 23.5 percent over the past four years, Lin Yincui, vice-minister of chemical industry, announced today.

The country exported 2.09 billion U.S. dollars worth of chemicals in 1989, Lin reported at a national conference on chemical exports, which opened here today.

China now exports 138 types of chemicals to more than 100 countries and regions.

Lin said the industry still faces many problems, including an adverse balance of trade, an irrational export structure and a lack of overall control of chemical exports by the state.

Lin called for efforts to keep abreast of international market information, improve management and technology, and maintain stable, sustained and coordinated development.

### **Computer Contract Signed With Soviet Union**

*HK2806113190 Beijing CEI Database in English  
0919 GMT 28 Jun 90*

[Text] Beijing (CEI)—The Beijing Qidi Computer Company has developed the 909-model Chinese-Russian-English desk processor which can store messages in its data bank in these three languages and can print the three languages at the same time.

The processor is produced at the request of Soviet clients. The company has also signed a contract recently with Soviet companies for establishing an electronic technology development company to produce computer typewriters in the Soviet Union. The Qidi Company will offer technology and production equipment as its share of investment.

The Qidi Computer Company had exported Russian-English typewriters to the Soviet Union and the products were well received.

### **Paper Discusses Household Registration**

*HK1206070190 Beijing RENMIN GONGAN BAO  
in Chinese 4 May 90 p 3*

[Article by Shen Tirui (3088 7555 3843): "Discussing Household Registration Readjustment Work of the Fourth National Census"]

[Text] The State Council has decided to conduct China's fourth nationwide population census in 1990. This will be an important survey of China's national conditions and national power. To ensure that the fourth population census will be carried out smoothly, the State Council has issued Order No. 45 to promulgate the "Procedures on the Fourth National Population Census." The "population census procedures" provide that "prior to the population census registration, population census organs at all levels shall carry out household registration readjustment in accordance with the 'PRC Regulations on Household Registration' and other regulations enacted by the state on administration of household registration." Document No. 80 issued by the State Council in 1989 carried the report drafted by the leading group for national population census under the State Council and the Ministry of Public Security on the household registration readjustment operation to be conducted prior to the fourth national population

census. At present, all localities are earnestly carrying out household registration readjustment in close cooperation with all departments and units concerned and under the leadership of the governments at all levels, in accordance with the relevant provisions of the "population census procedures" and the spirit of the report on household registration readjustment conveyed by the State Council.

### **The Policy and Principles Governing Household Registration Readjustment**

According to the "PRC Regulations on Household Registration" and the provisions concerned of Document No. 80 issued by the State Council in 1989, the current household registration readjustment is to be conducted by the leading groups for population census and the public security organs at all levels. A number of comrades who excel in political understanding, have received education at and above the junior secondary level, and are devoted to work are to be selected from government organs, public organizations, enterprises, and service units. They are to undergo intensive training by taking part in some pilot projects. Registrations of permanent and temporary households are to be verified and updated separately. In case the registered personal information is found inaccurate, investigations must be conducted; any false information shall be amended and updated with the approval of the departments concerned; duplicate household registration entries shall be deleted, and missing household registration entries shall be filled up. Those household registration entries that should have been deleted because of death, removal, enlistment, departure from the country, arrest, or imprisonment shall be deleted according to the provisions concerned. For the newborns, those who have moved in a new place, demobilized servicemen, those who have returned from abroad, and those who have been released from prison, if they do not have any entry in the household registration book, they should have one as soon as their personal information is verified. Temporary residents shall promptly make temporary household registration and acquire a temporary residential registration certificate in accordance with the provisions concerned. It is necessary to make sure that everyone who moves in has his entry added to the household registration book and everyone who leaves has his entry removed from the household registration book.

Departments concerned should assist public security organs in properly resolving in accordance with the relevant policy the problem of residents staying away from the places where their household registration files belong. If a resident who has moved out of his city or county of origin because of removal of his employer unit or change in employment continues to have his household registration file kept by the authorities of his city or county of origin, the local competent unit should persuade him (as well as his family members who have moved out together with him) to transfer his (and their) household registration and grain ration files to the new place of residence. If a resident has moved to a new address within the same city or county without moving



his household registration file accordingly, he should be encouraged to have his file transferred to his new district of residence in accordance with the "household registration regulations." In case it is hard to resolve the problem for the time being, it is necessary to update the household registration file so as to strengthen population administration and to prevent duplicate or missing household registration entries. A resident moving into a new place shall present to the local household registration office a "household registration transfer certificate" issued by the household registration organ of his original place of residence or other documents as prescribed by the "household registration regulations." According to the relevant provisions laid by the state, those who live in urban areas without household registration (that is, those whose permanent household registrations have yet to be ascertained) should promptly register with the relevant household registration office if they are qualified for permanent residence in urban areas. As for those who are not qualified for permanent residence in urban areas, the departments concerned should try their best to persuade them to return to their places of origin. Rural areas for their part should make appropriate arrangements to restore these people's household registration files, and their children should be allowed to live with the mothers. In principle, those living on board boats without appropriate household registration should return to their original place of permanent residence. Those without household registration who have moved into sparsely populated remote rural areas or who have actually been employed in mining or forest areas can be permitted to register as local residents after consultations between the local authorities and the authorities of those people's original places of residence.

For those who do not have a household registration file and can acquire no permanent residence for the time being, the household registration offices of the places where they are living at present should add their personal files to a special registration book, and issue a temporary identity document to those who are regarded qualified for a temporary identity card.

The nationwide household registration readjustment process was started in last January and ended by the end of May. A draft household name list for each population census district will be prepared on the basis of the household registration readjustment, and will be used for reference in the population census. Before that, a sampling survey should be conducted at each level to verify the quality of the household registration readjustment process. The work must be redone if the quality is found not up to the standard.

#### **Items That a Citizen Needs To Fill in Household Registration**

According to the "PRC Household Registration Regulations," every citizen shall complete the following seven household registration items:

1. Permanent household registration: Every citizen must register in his place of permanent residence as a permanent resident. This is usually called official household registration. Everybody can have only one permanent household registration entry. In case a citizen has two or more residences within a same city or town, he shall register as a permanent resident where he usually stays longer. This provision not only safeguards the legitimate rights and duties of every citizen, but also facilitate strict household registration control and ensure accuracy of population statistics.

2. Temporary household registration: When a citizen makes a business trip, works, visits relatives and friends, or has medical treatment outside his place of permanent residence and has to stay there for more than three days, he shall register as a temporary resident with the local household registration office where he stays. And, before he leaves that place of temporary stay, he must also advise the local household registration office so that his temporary household registration will be deleted. A citizen of over 16 years of age whose duration of temporary stay in a place exceeds three months must apply for a "temporary resident card" from the local household registration office.

3. Birth registration: After the birth of a citizen, the head of household, the newborn citizen's relatives, his guardian, or other persons concerned, shall declare the birth of the citizen at the household registration office of his mother's place of permanent residence.

4. Decease registration: After the decease of a citizen, the head of household the deceased belonged to, the relatives of the deceased, his guardian, or other person concerned shall declare the death to the household registration office so that his household registration entry can be deleted. Deceased registration should be made before burying for a deceased urban resident and within one month for a deceased rural resident. In case a citizen dies in a place where he is making a short stay, his relatives or the person who first discovers his death shall be responsible for declaring the decease to the local household registration office, and the latter shall advise the household registration office of the deceased person's place of permanent residence so that his household registration entry can be deleted. If a citizen dies in an abnormal manner or of an unknown reason, the household registration office must fulfill the decease registration procedure based on the information provided by the relatives of the deceased or the discoverer of the death. In case a citizen dies while moving in a new place, his moving-in registration and decease registration shall still be made at the household registration office of the place where he is to move in. If a baby dies in the process of delivery, no birth nor decease registration is needed. But if a baby dies after its birth and it does respire before its death, both the procedures of birth and decease registrations must be fulfilled.

5. Move-out registration: When a citizen applies for moving out of a place, he himself or the head of his household shall undergo a move-out registration at the



household registration office of his place of permanent residence by presenting his household registration booklet and resident identity card. The household registration office shall issue the applicant a "household removal certificate" and delete the applicant's permanent household registration entry accordingly.

6. Move-in registration: When a citizen applies for moving in a new place, he shall present his "household removal certificate" issued by the household registration office of his original place of residence and a move-in permit issued in accordance with the regulations concerned, to the household registration office of the place where he is to move in, and undergo a move-in registration procedures with the latter.

7. Change in and amendment to household registration: As the time goes by, some content of a household registration entry, for instance, one's position, occupation, educational level, and marital status, may be outdated. Some items of a household registration entry may be incorrect due to inaccuracy in the information provided during the household registration. Such outdated or incorrect information needs a change or amendment which shall be made in good time by the person concerned who is required to present the relevant certifying documents to the authorities.

#### **What Should the Citizens Do in Support of the Household Registration Readjustment for the Population Census**

The household registration readjustment involves every household and every citizen. Therefore the accomplishment of this task needs the strong support and close cooperation by the broad masses of citizens.

Every citizen is duty-bound to take part in, support, and give assistance to the household registration readjustment for the population census. In the process of household registration readjustment, every citizen should conscientiously abide by the "household registration regulations," implement the household registration system, provide household registration officials with all the true information required, answer every relevant question they ask, and, at the same time, he should also help in explaining to others the great significance of the population census and the specific procedures and requirements of the household registration readjustment, and assist the government in properly accomplishing the household registration readjustment. One must expose and report to the authorities any cases of serious violation of the "household registration regulations," such as intentionally or unintentionally giving wrong information about number of heads, forging or illegally altering household registration documents, and making over, leasing, or selling household registration documents. This is also the right and duty of every citizen. Nobody shall interfere in or obstruct the exercise of this right, or retaliate upon those who exercise this right. Anyone attempting to do so shall be severely punished according to the law.

## **TRANSPORTATION**

### **Local Railway Rolling Stock Available, Imports End**

HK0406034690 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 4 Jun 90 pp 1, 2

[Text] China, which has been emphasizing self-reliance, no longer needs to buy railway rolling stock from abroad.

"We can produce all that domestic needs call for," Dou Youcai, director of the production departments of the Ministry of Railways, told BUSINESS WEEKLY.

Dou boasted of this, while raising a comparison that China will have to import automobiles, machinery, ships and aeroplanes for some years.

The news means that the amount of money for imports can be shifted to domestic production, Dou said.

China has relied on imported rolling stock for 40 years. Spending in the past four years was some \$200 million, equal to one-third of the investment in rail production during those years.

Dou attributed the increased production to the high rate of investment between 1986 to 1990—three billion yuan (\$635 million), or 10 percent of the total investment in the railway system.

The investment rate in prior years was 5.8 between 1981-85, 3.4 in 1976-80, and 2.6 in 1971-75.

However, bad news has also arrived that shortages of investment funds will force manufacturers to clip their wings in operation.

BUSINESS WEEKLY learned that production cut-downs in the latter half of the year will be: 30 internal-combustion engines, 30 electric engines, 200 passenger cars and 1,000 goods trains.

That means that last year's targets were missed by 10 percent, a senior official from the ministry said.

He said a decision on the cut-backs will be made soon.

Some 400 million yuan (\$84 million) is expected to be obtained from the planned funding in a bid to meet the extra payment the rising prices of iron and steel call for, the official said.

He explained that the ministry plans both the production and purchasing of rolling stock.

He estimated the cut-backs will affect 0.5 percent of the country's railway transport capacity for this year.

Experts said they fear the somewhat crippled capacity would fail to meet this year's transportation needs, although the industrial growth rate—6 percent as the central government set—may only create a moderate demand, the official said.

Some of the manufacturing lines will have to run idle except that orders paid-before-delivery would come from outside the section, he said.

With the mixed feelings, Dou has directed his staff to think back on the past five years and make plans for the next five years.

Production capacity in the coming five years will be consolidated instead of being expanded, Dou said.

But maintenance and spare parts production, which has not been sufficient for years, will be expanded and are a priority for the domestic production plan, he said.

A more reasonable pricing system and production licenses will be adopted in the development, he said.

He said the measures are aimed at instilling competition into production.

Top on the list will also be the transformation of existing rolling stock repairing methods, he said.

Spot maintenance checks, repair and replacement of aging parts with new ones will be adopted to phase out overhauls at rigidly fixed times, he said.

The so-called periodical overhaul has been used in China for decades. "That wastes time and repair capacity," Dou said.

### **New Airport in Zhejiang Province Begins Operations**

*OW3006211490 Beijing XINHUA in English  
1422 GMT 30 Jun 90*

[Text] Ningbo, June 30 (XINHUA)—Lishe Airport in Ningbo City, coastal Zhejiang Province, went into official operation today.

Ningbo Mayor Geng Dianhua said the new airport will facilitate exchanges between Ningbo and other parts of China and promote technological and economic cooperation with foreign countries and regions.

Local officials said large numbers of investors and businessmen from foreign countries and Taiwan have asked Ningbo to negotiate capital-intensive projects.

Peng Chong, vice chairman of the Standing Committee of the National People's Congress, Huang Hua, member of the Standing Committee of the Central Advisory Commission of the CPC, Shen Zulun, governor of Zhejiang Province, and Hu Yizhou, director of the Civil Aviation Administration of China, attended today's inauguration ceremony.

### **Aviation Industry Shifts Emphasis to Civilians**

*HK3006021890 Beijing CHINA DAILY in English  
30 Jun 90 p 1*

[Text] China's aviation industry, in a bid to satisfy the country's increasing need for passenger airliners, has

shifted its focus from the military sector to the civilian over the past decade, CHINA DAILY has learned.

Sources with the Ministry of Aero-Space Industry reveal that during the past 10 years of reform and opening to the world, the industry has succeeded in developing hundreds of civilian aeroplanes in 14 different types.

Among them, the Y-12, a 17-seat multi-purpose aircraft which has just won an air-worthy certificate from British Civil Aviation Administration, and the Y-8, a medium-range cargo plane with a maximum loading capacity of 20 tons, have edged into the world market and have won acceptance in Southeast Asian countries.

China's future civilian aeroplane development, according to Zhou Rixin, an official with the policy-making department of the ministry, will centre on long-range airliners, in addition to other aircraft, such as feeder planes, helicopters and planes for use in agriculture, forestry, fire fighting, land surveying and post delivery.

China will continue to cooperate with foreign firms in developing aircraft of all types, and to seek overseas partners in the production of large jetliners, aviation engines, navigation instruments and other equipment.

Ever since the industry's conversion from a mainly defence-orientation to an integration of both civilian and military production, it has quickened its pace of civilian product research and cooperation with international counterparts.

At present, according to Zhou, the output of all civil products makes up 75 percent of the industry's total output value.

To date, more than 59 Y-7 aeroplanes, a 52-seat medium and short-range passenger liner made by the Xian Aircraft Manufacturing Corporation, are in service on 70 domestic routes, forming the largest air fleet of the CAAC. And two other modified types, Y-7 200A and Y-7 200B, now under development, will come off the assembly line and be ready for service in 1991 and 1992.

Also, the new Y-8 passenger airliner, renovated from the Y-8 medium-range cargo, will be put into use by the end of this year, Zhou said.

And, in addition to the 15 MD-82 147-seat large airliners which have been assembled by the Shanghai Aviation Industry Corporation and are now in service on China's domestic airlines, the China Aviation Technology Imports and Exports Corporation (CATIC) and the U.S. McDonnell-Douglas aircraft company last March agreed to assemble 20 more such jumbo jets, five of which will be resold to the American company.

## PRC MEDIA ON FOREIGN AFFAIRS

### Features of U.S. Fiscal System Attract Attention

90CE0147A Chongqing GAIGE [REFORM] in Chinese  
No 2, 20 Mar 90 pp 173-180

[Article by Jia Kang (6328 1660): "Features of the U.S. Fiscal System and Instructive Points It Offers to China"]

[Excerpt] [passage omitted] **Features of the U.S. Fiscal System and a Few Insights It Offers to China's Fiscal Reforms**

China and the United States are two large nations with roughly the same land area, but, in terms of population, natural resources, cultural traditions, current state of economic development, and social, political, and economic systems, there are huge differences between the two nations. This means that some things that have proved successful under conditions specific to the United States will not necessarily work well in China. However, there are laws that hold universal validity in human society, and there are some methodological things based on this universality from which we can learn.

#### I. Divided Tax System

The U.S. system of divided taxes handles fiscal resource distribution relationships in a relatively satisfactory manner. It has incorporated the "enthusiasm" of the various levels of government into a relatively stable amalgam that balances membership in the whole against independence from it. The key prerequisite for this type of divided tax system is that no administrative relationship of subordination can exist between enterprises and any of the various levels of government. The government never involves itself directly in the establishment or operation of most profit-seeking enterprises, so the issue of control over enterprises does not give rise to disputes between different levels of government over their investment rights, as now happens in China. The clarity of control over enterprises lays the foundation for a clear demarcation of financial rights. The most important objective of China's reforms is to separate government from enterprises, and to make enterprises become managers of commodity production in a unified market. It is intended that these enterprises should have relatively firm budget restraints and should compete among themselves. This means that we must change the current relationship of administrative subordination that exists between most enterprises and the government. Our readjustment and changing of the government's control over enterprises means that we can learn from the U.S. experience with the divided tax system even as we retain the framework of our new system. On the one hand, given the fact that the establishment or formation of China's divided tax system will be a long process that is intimately linked to the process of the development of a unified market, it seems that we should have a particularly good opportunity (as we design and operate our own system) to borrow from the way the U.S. system

handles sharing of revenue sources by different levels of government. It provides a flexible array of choices and a margin of maneuverability in setting up different "sharing" ratios for different levels of government, so it can link the step-by-step progress of the reforms to their ultimate goal. In addition, given the fact that regional differences in China are much wider than they are in the United States, and the fact that the low level of our productive forces means that we have a much greater need for government intervention if we are to achieve concentrated utilization of fiscal resources, I believe that China's central government for a long time will inevitably have to retain its investment rights in a limited number of large-scale production projects (key projects) which have long production cycles and involve more than one region. We must also (and this is closely linked to the situation just described) resolutely see to it that local governments gradually withdraw from investments in production projects. Only in this way will we resolve conflicts regarding redundant control over enterprises. This would provide the conditions under which enterprises could escape from direct or disguised control that local governments have been able to exercise by virtue of relationships of administrative subordination which have continued to exist during the "administrative decentralization" of recent years. It would also provide the conditions for the formation of the framework of a genuine divided tax system. This is an important and indispensable link if China's divided tax system is to be successful.

In addition, China's fiscal system is one in which funds clearly flow upward. Quite a large proportion of the central government's fiscal expenditures are paid out of funds handed over to the state by local governments. In this type of situation, local government can easily get so big that the tail wags the dog, for the ability of the central government to exercise regulation and control is weakened when "the one with the money favors himself." During the process of divided tax system reform, we need very badly to raise the ratio of central government fiscal resources to overall fiscal resources, and to borrow one of the strengths of the U.S. fiscal system—the fact that funds flow downward.

Of course, there are many other important points related to the divided tax system reform which must be implemented in coordination with the measures described above, but I shall not go through them one by one.

#### II. The Function of Government and Fiscal Control Over Enterprises

Fiscal policy represents a redistribution by the state of a portion of all social products. This redistribution enables the state to perform its function, thus the authority and responsibility of fiscal policy depends in the final analysis upon what the government's function is.

No matter how dissimilar various nations may be, there are some unchangeable commonalities regarding the function of government (and its offshoot, the authority

and responsibilities of fiscal policy). These commonalities can be grouped into two major areas. The first is the need to maintain normal functioning of administration and regulation, national defense, foreign relations, public security organs, procuratorial organs, and the courts. The second area is the need to provide basic infrastructure, public welfare facilities, environmental protection, social services, social security, and public education. The first area is the sole reserve of the government in all countries, but private foundations and charity organizations get involved in the second area in most Western nations, including the United States. However, the U.S. Government still plays a decisive role in the second area. The actual situation in China, however, is that the government has shrugged off its responsibilities in the second area, and these responsibilities have fallen mainly to enterprises, public institutions, and grassroots rural units. The rest generally are the sole responsibility of the government. However, with the government throwing itself feverishly into production-oriented investments, it cannot do a good job of carrying out its responsibilities in the second area, for which it alone is responsible. China's infrastructure is very inadequate, and is part of what is referred to as "the bottleneck." Service from public welfare facilities is extremely backward. In recent years, ecological deterioration and destruction as well as environmental pollution have gotten to where they practically threaten the survival of the Chinese as a people. Education is also in the midst of a serious crisis. All of these things are important factors that limit overall development of the national economy and keep it from growing stronger, and they are all related to the fact that in the past we put too much stress on the uniqueness of the function performed by our government and not enough on the common points it shares with other governments. These things are also related to the fact that we have not had a good grasp of the order of fiscal policy authority and responsibilities. The reforms should serve as an opportunity for us to correct the erroneous tendencies described above. I believe that, in reference to this problem, we must obtain a firm grasp of the following important points, which involve readjustment of fiscal policy authority and responsibilities.

1. As we carry out the divided tax system reform and other related reforms, we must resolutely make local governments withdraw from profit-oriented investment. We must include local infrastructure, construction of public utilities, and environmental protection among the main standards by which we evaluate the performance of local governments and local fiscal work. We should allow local governments to use funds raised through bond issues only when they intend to invest in special projects which are profit-oriented and intimately linked with public welfare facilities.

2. As the central government draws up its budget, it must observe a rational order in carrying out its various governmental functions. Any production- or construction-oriented projects that it takes on must be given

lower priority than fiscal expenditures intended to benefit all of society, and they should be carried out only as resources permit. In order to better protect this order, we should establish a dual budget in which we set up a special budget for investment.

3. We must coordinate reform of the enterprise mechanism with price and wage reforms, and separate social services and social security from enterprises and businesses. We must restore to the government the authority and responsibilities that belong to it, establish a corresponding funding program within our fiscal system, and make the program a sound one.

4. In addition to public education, we must encourage and support the development of private education, and we must stimulate competition between public and private education to achieve greater quality and to open up more revenue sources within society.

5. We must support and guide the development of private foundations. A high income stratum has appeared in our society, and we must induce these people to donate part of their money to public service and charitable organizations. Furthermore, we must ensure that they will always enjoy legal protection as they carry out their activities.

### III. Establishing a Legal System

If China is to achieve real progress in the future with divided tax system reform, with its efforts to improve the budgetary form (singular or dual), or with raising the quality of routine budget work, it is imperative that the legal system be built up. Only law can provide the strength needed by fiscal departments to effectively resist the "hungry demands" of other departments or higher level leaders, as well as their unrealistic "boss mentality." Only law can enable them to go on from here to make the budget significantly more scientific, increase the weight of its authority, or enable more rigorous enforcement. Only law can enable fiscal policy to efficiently perform its proper function of macroeconomic regulation and control. China's fiscal difficulties have persisted for several years, and while there have continually been calls during this time to strengthen the legal system and to bolster the authority of the budget, in the face of pressure from relevant departments and orders dashed off by leaders, the work of fiscal departments at every level has always appeared to suffer from a complete lack of law or set procedure. This is undeniably an important factor preventing us from escaping our passive predicament in the area of fiscal policy, and it impedes our efforts to raise budget quality and our ability to exercise regulation and control. It will be very necessary and beneficial for us to learn from the experience of the United States in building up a financial and economic legal system, and in formulating, reviewing, and implementing budgets. During the process of perfecting China's relevant legislation, we can consider the possibility of strengthening two things: the ability of the various levels of the National People's Congress to

intervene in and circumscribe the process by which the various levels of government formulate, review, and implement budgets; and the safeguarding role that should properly be played by legislative organs.

#### IV. The People's Habit of Paying Taxes

We have been gradually strengthening China's tax system over the past few years, but it does not meet the requirements of development and reform. Even though we have done everything possible in the areas of tax collection and management, we are still failing to tap considerable tax sources. Apart from strengthening our work in setting up accounts, filing returns, and auditing, in the long run we will need to make it a top priority to inculcate among the people a habit of paying taxes. People in the United States, as citizens and taxpayers, have both a duty to pay taxes and the right to question and oversee the use of these taxes. Rather than incur legal sanction by evading taxes, they feel that they might as well pay taxes as required by law in order to seek long-term development in one's business and security in one's daily life. These concepts have gained universal acceptance. Even so, of course, there are still a lot of people who evade taxes. While the need to render up "imperial rice and national taxes" was a concept traditionally held during China's several thousand years of historical development, this idea was almost entirely destroyed during the 1920's and 1930's as warlords ruled over their separate territories and levied numerous heavy taxes upon the people; during the period of Kuomintang rule as the government "ate tomorrow's grain today" by carrying out "early tax collections"; after liberation by extreme swings in tax policy; and in recent years at the local level by countless requisitions of funds and all sorts of improper practices related to this phenomenon. A restoration of the people's habit of paying taxes is a necessary part of the process of modernization. It will help to reduce the loss of tax sources, and lower tax collection costs. It will also enable taxes to perform more fully their function of raising funds and regulating the economy. As for concrete ideas, we can at least take the following points firmly in hand:

1. We must strengthen propaganda and education about the meaning and role of taxes. In the process of reforms and the building of a legal system, we must increase transparency in the use of fiscal resources, thereby making citizens everywhere able to understand the link between taxes and themselves and society.
2. We must root out various forms of funds requisitioning which occur at the local level. If some forms need to be maintained, then they must be brought within regular tax channels and made subject to regulation.
3. At the proper opportunity, we must coordinate our efforts to pursue wage and price reforms by introducing a plan for relatively universal tax collection. We can deal with people with low income by assigning them a tax rate of zero percent. People with medium income can be taxed at relatively low rates, which would later be raised

by an appropriate amount as the economy develops and the people's standard of living rises. This is a path we must travel if we are to establish a modern state tax structure and inculcate among the people a habit of paying taxes. From the standpoint of development, the significance of this course of action is great, and future prospects are bright.

4. As long as the problem of tax evasion continues to be ubiquitous, we must concentrate on striking a blow against those whose violations are relatively severe and whose attitudes are especially vicious. Once the problem whereby "the law does not prosecute groups" is overcome, we can prosecute all tax evaders more rigorously.

## AGRICULTURE

### Hunan Hog Procurement

90CE0222A Changsha HUNAN RIBAO in Chinese  
15 Apr 90 p 2

[Article by staff reporter Deng Xianzhong (6772 3759 1813)]

[Text] As shown by statistics provided by the Hunan Provincial Meats and Aquatic Products Corporation on 6 April, Hunan sold 384,800 pigs to Guangdong and Guangxi in the first quarter of this year, a 70.38 percent increase over the same period last year and an all-time high record. This is the result of timely actions by the state meat supply system to readjust its operational policy and enliven pig circulation.

Hunan is one of China's 10 major provinces exporting pigs to other parts of the country. This year Hunan has an increased number of pigs, but in Beijing, Tianjin, Shanghai, Wuhan, and Guangzhou, major markets for Hunan, stocks of frozen pork have reached the saturation point and in some cases may last more than six months. Faced with the situation and in view that Guangdong and Guangxi are mainly live pig markets, the state meat supply system switched from selling frozen pork to selling live pigs to Guangdong and Guangxi, making full use of the geographic and transport advantages. Leaders of the provincial meat corporation made two trips to Guangdong and worked out in good time a plan for continued supply of live pigs to Guangxi for the first half of the year, thus establishing a stable marketing channel. At the same time, specific live pig marketing tasks were assigned to the basic-level companies in the province. The Zhuzhou Municipal Meats and Aquatic Products Corporation set targets for Liling, Chaling, Youxian, and Lingxian counties and Zhuzhou City for the planning and management of selling 300,000 live pigs to Guangdong and Guangxi. Target responsibility agreements were signed and encouragement measures were adopted at every level. The municipal corporation also took the lead in setting up four permanent sales stores and more than 20 basic-level food outlets in Guangzhou, Foshan, and other places to develop supply and marketing relations. As of 20 March, more than

40,000 head of live pigs had been sold, 10,000 more than in the first quarter of the last year.

The basic-level companies have also improved their management style in order to give greater convenience to the peasants. The seven counties and cities under Hengyang City have generally made the change from having pigs delivered to the stores to buying pigs at peasants' homes by appointment. Buyers come with scales, cash, and carts, and peasants need not leave their villages to sell their pigs. The city purchased 75,700 head of live pigs in the first two months of this year, 80 percent of which shipped alive to Guangdong and Guangxi.

The steady flow of live pigs to Guangdong and Guangxi has stimulated circulation, eliminated the "overstock" phenomenon, and increased pig purchases. In the first quarter of this year, even though frozen pork exports decreased by two-thirds, the meat supply system of Hunan Province still purchased 892,700 head of live pigs from the peasants, a 0.12 percent increase over the same period last year, relieving the peasants of worries in developing live pig production.

### Problems, Solutions to Fertilizer Monopoly

90CE0222B Zhengzhou HENAN RIBAO in Chinese  
1 May 90 p 2

[Article by staff reporters Xiong Huanye (3574 3562 2814) and Zhang Pingzhao (1728 1627 3564): "Problems in Exclusive Control of Chemical Fertilizers and How To Deal With Them"]

[Text] At the end of 1988, in order to put an end to the chaotic situation in chemical fertilizer management, the State Council decided to place chemical fertilizers under special control.

Facts have borne out that the decision is absolutely correct. From the Luohe City chemical fertilizer market, it can be seen that the exclusive state control of chemical fertilizers has stabilized the market and prices and reassured the people.

As illegal dealings are banned, the black market disappeared, and the phenomena of fake products, confusion, and price hikes have been brought under control. The city's seven chemical fertilizer plants produce 250,000 tons of ammonium carbonate and more than 300,000 tons of phosphate fertilizer each year. Except for a small portion supplied directly by the plants to the peasants, all the rest is taken up by contract orders signed between the city's Agricultural Means of Production Co and the peasants. Under the contracts, locally produced chemical fertilizers are supplied to the peasants by installments and according to plans. Thus a new order for the circulation of agricultural means of production, integrating industry, commerce, and agriculture, is basically established. The prices of the chemical fertilizers are uniformly determined and publicly posted by the price department. The fertilizer plants operate on a low-profit

basis, and the Agricultural Means of Production Co keeps the prices stable by reducing circulation links and markups. In the past year, the profit per ton of chemical fertilizer was reduced by 19 yuan, which meant a total profit reduction of more than 3 million yuan by the city as a whole. The peasants were the real winners, but industry and business could still make a profit, and the problem of supply falling short of demand was being alleviated. In 1989, a total of 220,000 tons of chemical fertilizers was sold in this city, up 14.5 percent from the previous year. Comrades of the supply and marketing cooperatives said that under the special control more chemical fertilizers were sold in the past year than ever before.

However, in placing chemical fertilizers under special control, owing to our lack of experience and the numerous departments involved, some unexpected problems have cropped up in practice. If the problems are not solved as quickly as possible but allowed to exist and develop, it will be impossible to realize the advantages of the special control.

First, it is imperative to really implement the policies leaning toward agriculture and departments which give support to agriculture and, on this basis, to strengthen the legal guarantee for contracts.

At present, the chemical fertilizer plants have to use high-priced coal and electric power and high-interest loans to keep production going, and must also bear the soaring transportation expenses. With increasing costs, price hikes are inevitable. In 1988, the exfactory price of locally produced ammonium carbonate was 235 yuan per ton, and it has now increased to 295 yuan per ton, up by 25.5 percent. The factories are suffering from the fact that since chemical fertilizers were placed under special control, their exfactory prices are also controlled, and as the channels for the factories to sell their products elsewhere at higher prices are largely cut off, their economic returns are steadily decreasing. To increase their profits, the factories often sell fertilizers through their own channels without authorization and, as a result, are unable to meet their contract obligations on schedule. To fulfill contracts, the supply and marketing cooperatives have no other choice but to buy fertilizers at high prices from other places, sell them to peasants at low prices, and suffer heavy losses. In addition, the supply and marketing cooperatives are also troubled by losses of a policy nature, such as the lack of funds, excessively high interest rates on loans, profit margins of the 1960's but expenses of the 1990's, and so forth. They are virtually reeling under the heavy burdens.

The special control is a chorus of industry, commerce, and agriculture, an organic whole composed of several links. Its vitality lies not only in the coordination and cooperation between the various links but also in each link's own development. For this reason, it is necessary to have an external support and restraining mechanism to help promote the development of each link. It is known as "give in order to take." The chemical fertilizer

plants are the fountainhead of the special control. Broadening the fountainhead brings prosperity; exhaust the fountainhead, and failure follows. The supply and marketing cooperatives are the main channels of the special control, the reservoirs of the chemical fertilizer plants. How well they are managed also has a bearing on the success or failure of the special control. Therefore, it is urgently necessary to provide the chemical fertilizer plants with low-priced coal and power and low-interest loans on a priority basis. Only then will there be hope for chemical fertilizer prices to come down. At the same time, it is necessary to establish as quickly as possible a set of market laws and regulations adapted to the new circulation system to regulate business activities according to law and provide legal guarantees for the fulfillment of production, supply, and marketing contracts.

Second, the specific chemical fertilizer control measures should be relaxed somewhat, provided the stability of market prices and the interests of the peasants are guaranteed.

At present, the sales of chemical fertilizers under unified control are subject to rigid restrictions. Generally chemical fertilizers are purchased at year-end or the beginning of the new year and delivered to the peasants after the completion of grain, cotton, and oil-bearing crops procurement tasks. The chemical fertilizers are sometimes kept in storage for as long as eight months. Thus, while huge quantities of chemical fertilizers are kept in stock by the departments concerned, the peasants are unable to buy fertilizers in good time. The Luohe First Agricultural Means of Production Co handled 28,590 tons of bonus fertilizers for grain production last year. Because the fertilizer was kept in storage for an extended period, the interest rate was increased, and it cost the company 230,000 yuan in additional interest payments. Moreover, because 60 percent of the funds needed in handling chemical fertilizers under the state plan come from banks loans, and because of the tightening of money supply and the tying up of funds, defaults of fertilizer payments from level to level have become a vicious cycle.

Can the problem be solved? Some places already solved it. Since the last year, more than 30 counties in Henan have changed from selling chemical fertilizers at fixed low prices to selling them at negotiated prices. At the negotiated prices, fertilizers are sold to peasants as early as possible; the additional funds received are turned over to the grain departments; and the grain departments give the money back to the peasants when they fulfill their procurement tasks. In Nanyang Prefecture, the practice is to turn the earnest money for grain purchases over to the supply and marketing cooperatives to help pay for the chemical fertilizers ordered; the supply and marketing cooperatives supply the fertilizers free to peasants; and the grain departments deduct the earnest money from payments to peasants at grain delivery time. This practice kills two birds with one stone. It helps the supply and marketing cooperatives with needed funds on

the one hand, and makes sure that the earnest money for grain is really used for grain production on the other.

Third, an order contract, under which chemical fertilizers will be delivered by installments, should be introduced, and peasants should be encouraged to store up chemical fertilizers during slack seasons and use them during busy seasons. This will reduce the quantities of chemical fertilizers in stock, speed up the turnover of funds, and help industry and business get out of their difficult positions.

Yancheng County has found a way that works. They have begun to handle locally produced chemical fertilizers in a planned way. The chemical fertilizers produced by two local plants are turned over to the supply and marketing cooperatives under contract. The supply and marketing cooperatives then sign contracts with peasants for delivery of chemical fertilizers by installment. The peasants pay 3 yuan as deposit for each sack of chemical fertilizer. The supply and marketing cooperatives will be fined if they fail to deliver the chemical fertilizers on time. If the peasants fail to purchase the chemical fertilizers past the due date, the deposit will be forfeited. This practice has solved the problems of overstocking of chemical fertilizers and tying up of funds and also guarantees that the peasants can get chemical fertilizers in good time. Thus industry, business, and agriculture will have all benefited.

#### **Guangxi Aquatic Output Increases**

40060052E Nanning *GUANGXI RIBAO* in Chinese  
8 May 90 p 1

[Summary] In the first quarter of 1990, output of aquatic products in Guangxi exceeded 44,900 tons, a 16.89 percent increase over the same period in 1989; the gross output value of the 11 regional aquatic products enterprises was 28,909,500 yuan and profits totaled 3,367,700 yuan, increases of 81.16 percent and 60.99 percent respectively over the same period in 1989. The Guangxi Aquatic Products Bureau has supplied diesel oil and other materials to fishermen at fixed contract prices, and has supplied advanced equipment to enterprises.

#### **Inner Mongolia Afforestation**

40060052D Hohhot *NEIMENGGU RIBAO* in Chinese  
15 May 90 p 1

[Summary] As of 20 April, Inner Mongolia had afforested 1,480,000 mu.

#### **First Quarter Cash Expenditures of Rural Households**

HK2505133190 Beijing *CEI Database* in English  
25 May 90

[Text] Beijing (CEI)—Following is a list showing per capita cash expenditure of rural households in the first quarter of 1990, released by the CSICSC [China Statistics Information Consultancy Service Center]:



	(unit:yuan)	
	1-3/90	1-3/89
Total Expenditure	209.00	196.37
1. Expenditure on production	37.29	40.05
2. Living cost		
a. Expenditure of living	104.33	102.37
b. Expenditure of culture	12.24	10.12
3. Other nonproduction expenditure	19.19	15.79
4. Expenditure of savings, loans	27.74	24.71

### Hebei Suffers Slump in Cotton Production

90CE0238A Beijing JINGJI RIBAO in Chinese  
26 May 90 p 2

[Article by staff correspondent Zhang Gengtao (1728 2577 3447) and Staff Reporter Zhing Jianchun (0112 1696 2504): "Why Did Hebei's Cotton Production Change From Hot to Cold?"]

[Text] In covering Hebei news, from farmers to the governor, everyone talks about cotton. What is the matter with cotton?

When we went to the main provincial textile industry company that uses cotton, a comrade from the Raw Materials Office anxiously briefed us. He said that the Hebei textile system has 2.56 million spindles, and every year needs 8.5 million dan of cotton. However, by the end of this April, it could only get 2.76 million dan of cotton. In May it has been maintaining production with difficulty. In October, before new cotton arrives, there will be a four-month gap of nearly 2 million dan of cotton. Many enterprises are now asking for emergency help in cotton, and face the prospect of massive shut down in production.

Vice Governor Song Shuhua [1345 3219 5478], who is in charge of industry, because of the big troublesome problem of cotton, has many times convened conferences to discuss countermeasures. "The textile industry is Hebei's mainstay industry. Its output value accounts for one-seventh of the industrial gross output value, and its profits tax accounts for one-sixth of the financial revenue. If the textile industry cannot move forward, Hebei's economic development will be directly threatened and restricted. Cotton has become a major problem vexing Hebei's economy, and at the necessary time foreign exchange will have to be spent to import cotton." Obviously Vice Governor Song had no alternative but to say these things.

The cotton situation also casts a dark shadow over the development of the textile industry in China as a whole. Hebei is the second largest cotton-producing region in

China. It is understood that last year, of Hebei's originally planned raw cotton that should have been turned over to the state, 800,000 dan had to be deferred until this year's autumn makeup handover. What about the problem of reduced output faced by the several other major cotton-producing regions in China?

The reduced output of cotton and the macro policy are directly related. After Hebei's output of cotton reached its highest level of 2.1 billion jin in 1984, cotton production suffered two major shocks. The first shock was that the high yields of cotton in 1984 and 1985, two successive years, made it difficult to sell cotton, with the result that the buyer's heaven was little short of disastrous for the peasants. Some people, because of this, proposed that for several years no more cotton than the textile industry could absorb be planted, after which the state abolished its many preferential policies for the planting of cotton. Cotton output immediately dropped more than 1 billion jin. The second shock was that from 1986 on there was a big rise in the means of production, and the comparative interests in planting cotton fell, further dampening the peasants' enthusiasm for planting cotton. In 1989 the area of cottonfields was 1.5 million mu less than in 1988 and 3 million mu less than in 1984. Less and less cotton is being planted, its output is getting lower and lower, and cotton production has slid downhill year by year. Only by arduous effort has it fluctuated at about 1 billion jin.

What do the Hebei peasants intend to do this year? Comrades of the provincial urban socioeconomic survey team told us: At the beginning of spring we surveyed 193 key agricultural households in 20 cities and counties. The area planted to grain and oil-bearing crops will be expanded to different degrees; the area planted to cotton will continue to shrink, by about five percent, and the cotton situation will still not be good. In the early eighties, because the state had a preferential policy for cotton planting, the enthusiasm of the peasants for planting cotton was very high, and for a time cries for thinking of ways to plant cotton resounded. Now the peasants' universal view is that planting cotton is not as good as planting oil-bearing crops, planting oil-bearing crops is not as good as planting grain, and planting grain is not as good as planting melons and vegetables—one by one they abandon cotton for other crops. "Planting cotton is not worthwhile" had become the peasants' attitude, causing an ossified situation in which there is a loss of enthusiasm for planting cotton and in which the cotton-growing plan cannot be fulfilled.

What are the reasons that the Hebei peasants' cotton planting changed from hot to cold? First, let us look at a figure: the total output of cotton in Hebei from 1978 to 1988 and the total amount purchased by society were the same, namely, 5.2 million tons, a commodity rate of close to 100 percent, and only 23 percent of the grain output in the same period. This is sufficient to show that cotton production is production of a purely commodity nature. Cotton is a commodity on which the state has the



monopoly on purchasing and fixing prices, and cotton-padded clothes can only be sold to the state in line with the state's price-fixing standards. This determines two distinct standards for cotton: First, under the existing production and business systems, cotton-padded clothes are the only profitable business, and with the practice of pure administrative intervention it is difficult to get the anticipated results. Cotton and grain are different. The peasants must plant grain, but they do not have to plant cotton. Because the peasants plant cotton not for their own consumption, they can sell it to society. Second, the peasants' cotton growing is mainly guided by cotton's purchasing price, and changes in supply and demand on the market do not have a big effect on it. From this we see that the fundamental problem restricting the development of cotton production is the price policy. This characteristic of cotton's provides advantageous conditions for the state's macro planning and control. In fact, the main reason that over the past several years there has been a big decline in Hebei's cotton production is reflected in a concentrated form in price. Director Fan [2868] of the provincial Statistical Bureau, in an analysis said: First of all, the parity between grain and cotton is irrational. From 1979 to 1989, in Hebei, the comprehensive average price of grain rose 294 percent while cotton's purchasing price rose 147 percent. The grain price rise was almost double that of cotton. In the same period ginned cotton's purchasing parity with wheat fell from 1:9.9 to 1:6.6, making cotton replace grain, which for a long time had the lowest prices, and tumble into the "bottom of the valley" of agricultural product prices. In 1989, although the state's fixed-quota purchasing price for cotton rose 34 percent, because the support fund had been abolished, the actual price rise was about 20 percent. At the same time the grain price rise was fairly large, and the pattern of grain and cotton parity tending to be low has not changed. In March this year the state announced a rise of 50 percent in the prices of oil-bearing crops, and the selection of cotton planted for cotton-padded clothes was also a medium-sized shock. Second, the industrial-agricultural parity is irrational. In the past one jin of cotton bought 10 chi of calico; now one jin of cotton can only buy five chi. Third, the prices of the agricultural means of production rose too sharply, thereby greatly increasing the cost of planting cotton, which is difficult for the cotton-padded clothes business to bear. From 1984 to 1989, in Hebei the retail prices of agricultural means of production rose 78 percent, but in the same period the price of cotton only rose 37 percent. In addition, because in cotton production there is a lot of input, it uses many tools, its management is difficult, and its output is low, even if the Hebei peasants have a tradition of planting cotton, they only need to have the necessary land to switch to planting other crops. Perhaps this is the irresistible force of the law of value.

If Hebei's cotton production were to go up, it would lead the development of the economy as if "by the nose of an ox." We came to Shijiazhuang just at the time when the provincial governor and vice governors had summoned specialists and county heads to an emergency meeting,

and, to fulfill the plan for the area sown to cotton, all cotton-producing areas launched a cotton "offensive." Hengshui made this year the first "Year of Cotton"; Xingtai proposed that leadership, policy, science and technology, materials, and services "revolve around cotton"; Shijiazhuang proposed a "veto power over cotton" under which if a cotton task was not fulfilled there would be no award; and the principal leaders of Cangzhou personally tilled demonstration fields, and put up signs on the edges of the fields reading "for cotton-padded clothes" .... In the province, the slogan "patriotic peasant families plant more cotton" was raised, and there appeared a complete set of policies that encouraged the production, loan allocation, and supply of the means of production for cotton. Hebei is now growing cotton on an area of more than 10 million mu, and more than 80 percent of the plan has been fulfilled, showing that, provided the state makes macro adjustments in a planned way, cotton production can rise again. Then, what actually are the prospects for cotton production this year? Our survey's answer is: if the state does not take vigorous measures, it will be difficult to avoid a slide down.

#### **Marketable Grain Bases in Inner Mongolia**

*SK0507085090 Hohhot NEIMENGGU RIBAO in Chinese 6 Jun 90 p 1*

[Text] This year, our region has invested a total of 135 million yuan in building marketable grain bases, which are one of our region's key construction projects, an increase of 18.7 percent over the previous year. Agricultural banks and credit cooperatives will arrange 1 billion yuan of agricultural production loans for the marketable grain bases, and 40 million yuan of loans for special agricultural development projects in three leagues and one city in the eastern part of the region and in Dalad Banner, an increase of 10 percent and 25 percent respectively over the previous year.

In order to develop grain production in a sustained and steady manner, in 1983, our region began to concentrate funds on supporting the building of 11 marketable grain base banners and counties, (cities), including Tongliao City, and 20 marketable grain base townships and towns. During the Sixth and Seventh Five-Year Plan periods, the state made joint investments with our region again to jointly build seven marketable grain base banners and counties, such as Morin Dawa Daur Autonomous Banner, one after another. In 1989, some of the banners and counties in the three leagues and one city in the eastern part of the region were listed as state agricultural development areas. So far, our region has marketable grain bases in 23 banners and counties (cities) and in 117 townships and towns.

In building marketable grain bases, our region has suited measures to local conditions and has always attached prime importance to actively developing small agricultural and water conservancy projects, improving agricultural production conditions, and carrying out scientific

farming. During the past seven years, some 94.8 million yuan of funds were used for building small agricultural and water conservancy projects in the marketable grain bases, accounting for 51.1 percent of the total investment. These funds were used for building channels and embankments with a total of 87.68 million cubic meters of earth and stone work, dug 23,500 electric-pump wells and 23,900 supporting electric-pump wells, increased 3.574 million mu of irrigated areas, improved 4.454 million mu of irrigated areas, and enabled the farmland effective irrigated areas and the guaranteed irrigated areas in the marketable grain bases to account for 36 percent and 30 percent respectively of the total sowing acreage.

During the past seven years, our region built 18 county-level agricultural technology popularization centers in the marketable grain bases and built and improved 227 agricultural technology comprehensive service stations in townships and towns. These agricultural technology popularization centers had multiple functions. They took care of the work concerning popularization of agricultural technology, plant protection, farm manure accumulation, diversified undertakings and management and gave comprehensive technical services to gear to the needs of peasants. Some 1.5 million peasants were trained annually.

After seven years of construction, the agricultural production conditions in our regions's marketable grain bases were improved. Their abilities to combat natural disaster were strengthened, their scientific farming level and their comprehensive grain production capacity were enhanced continuously. During the past seven years, they purchased more than 8.5 billion kg of marketable grain from the state. In 1989, despite serious drought, these marketable bases which accounted for 55 percent of the areas sown to soybeans and grain, produced 1.78 billion kg of marketable grain, which accounted for more than 80 percent of the region's total.

### Hubei Grain Output

40060052F Wuhan HUBEI RIBAO in Chinese  
10 Jun 90 p 1

[Summary] Estimated summer grain output in Hubei Province is 4.75 billion kilograms, an increase of 200 million kilograms over 1989.

### April Food Prices Reported

40060053A Beijing NONGMIN RIBAO in Chinese  
11 Jun 90 p 2

[Summary] According to the Ministry of Commerce, the market price per ton of corn decreased from 660-800 yuan in March to 660-760 yuan in April, sorghum 700-760 yuan to 680-720 yuan, shelled peanuts 2,700-3,400 yuan to 2,700-2,800 yuan, and unshelled peanuts 1,500-2,100 yuan to 1,500-1,750 yuan. The price per ton of rice in April was 1,100-1,600 yuan, wheat 900-1,100

yuan, green beans 1,500-2,200 yuan, soybeans 1,300-1,600 yuan, grade two vegetable oil 4,450-4,900 yuan, and soybean oil 4,500-4,900 yuan. The price per ton of pork was 4,600-5,100 yuan, chicken 4,400-5,600 yuan, beef 5,400-5,500 yuan, lamb 5,400-5,600 yuan and eggs 4,200 yuan. The price per ton of white sugar was 2,200-2,400 yuan, and brown sugar 1,900-2,000 yuan. The price per can of canned fruit 1.10-1.50 yuan, canned fish 1.50-2.20 yuan, canned beef and pork 1.80-2.10 yuan, and canned vegetables 2.00-2.70 yuan.

### Agricultural Loans Increase

40060053B Beijing JINRONG SHIBAO in Chinese  
16 Jun 90 p 1

[Summary] From January to May, agricultural banks and credit cooperatives throughout China provided agricultural loans worth 54.69 billion yuan, an increase of 14.17 billion yuan over the same period in 1989.

### Wang Lianzheng Views Agricultural Situation

HK0307050990 Beijing JINGJI RIBAO in Chinese  
19 Jun 90 pp 1, 2

[Report by staff reporter Yan Kalin (7051 0595 2651): "Wang Lianzheng, Executive Vice Minister of Agriculture, Interviewed on Current Situation and Prospects of Agricultural Development"]

[Text] Last year, we reaped a bumper harvest in agricultural production. In the first few months of this year, there was also a good beginning. However, there are also some problems. The most serious problem at present is: On the one hand, the per capita possession of grain had dropped from 396 kg in 1984 to 370 kg in 1989; but on the other, there were "difficulties in grain selling." At present, there are still several million tons of grain in the peasants' hands for sale. The agricultural situation has become more complicated in these years. Due to population growth and the reduction of cultivated land year by year, the situation of the next 10 years is also worrisome. Recently, this reporter had an interview with Wang Lianzheng, deputy secretary of the party leading group of the Ministry of Agriculture and executive vice minister, on the current agricultural situation and the way out and prospects of agricultural development.

Reporter: The central authorities have repeatedly emphasized the importance of concentrating efforts to promote the national economy. Now, industrial production has been growing month by month, but the agricultural situation is still not clear. What is the actual situation then?

Wang Lianzheng: First, I would like to tell you a piece of good news. A bumper harvest of summer grain this year is already in sight. It is estimated that wheat output will increase by about 4 billion kg compared with that of last year, and rapeseed will increase by 18 percent. Now, Henan, Anhui, Jiangsu, Zhejiang, Sichuan, and Hubei have already gathered in their wheat crops, while

northern Shandong, Shaanxi, and Hebei are harvesting theirs. Some other provinces and municipalities have also started harvesting one after another.

Judging from the figures provided by various localities, there will be a big bumper harvest of summer grain this year. We owe all this to our good policy, the efforts of the peasants, and the good weather. Since last year, the party Central Committee and the State Council have not only emphasized the importance of stabilizing and perfecting the system of contracted responsibilities on the household basis with payment linked to output, the importance of stabilizing and continuing the basic rural economic policies, and the importance of developing and improving the two-layered production structure, in which unification and division of work are both taken into consideration, but have also reformed the structure of grain purchase and sale and increased the prices of major agricultural products by a big margin. Now, the quota for the state purchase of grain according to contract has been reduced from the original 75 billion kg to 50 billion kg. Last year, grain price was increased by 18 percent, which was the second highest since the founding of the state. This year, the prices of cotton, oil, and sugar have also been increased by more than 20 percent. This has played an important role in mobilizing the enthusiasm of the peasants. Moreover, since last winter, various localities and relevant departments have strengthened leadership over agricultural production and have adopted more effective measures to support it. In the first few months of this year, our country put an additional sum of more than 13 billion yuan, in the form of agricultural loans, into agricultural production. God also helped us. This year, in most areas, there have been no serious drought or floods as in the previous years.

Reporter: Now in some places, there are "difficulties in grain selling." Many peasants have not even sold last year's grain. People are apprehensive that the problem of grain selling may not be easily solved this summer and the good trend of agricultural production may thus be affected. Are there any measures to deal with this situation?

Wang Lianzheng: The "difficulties in grain selling" does exist in some areas. In China, the main grain and cotton production areas are in north and northeast China and the middle and lower reaches of the Changjiang. These areas are also entrusted with the task of providing the central authorities with commodity grains to adjust the relations among various provinces. In south, southwest, and northwest China, the supply of major agricultural products is generally insufficient. They have to transport grain from other provinces. The "difficulties in grain selling" and the "difficulties in grain allocation and transportation" are especially serious in some areas, either in 1984 or at present. The current problem is that due to the insufficient storage capacity and the problems in economic relations, the areas which need to transport grain from other provinces usually do not want to have the grain transported earlier. At the same time, due to

their limited storage capacity and problems in the circulation of funds, the areas providing grain are reluctant to have the excessive grain in storage. All this has resulted in the emergence of the problem of "difficulties in grain selling." The "difficulties in grain selling" has become a matter of vital importance at present. The party Central Committee and the State Council are paying great attention to this. They have discussed the matter many times and demanded to grasp the work well. Now, we have comparatively sufficient funds for grain purchase, and various departments concerned have also made sufficient preparations. The phenomenon of giving "IOU's" to the peasants can be prevented. At the same time, the governments of various localities have placed grain purchase work in an important position and have harmonized the relations among various departments concerned in order to support the grain department to fulfill the grain purchase task faster and better. At present, it is necessary to firmly grasp the purchase of the grain the peasants are eager to sell and the preparatory work for the purchase of summer grain. We believe that provided various localities and departments proceed from the overall situation and make concerted efforts, grain purchase work can surely be done smoothly.

Reporter: At present, many comrades are optimistic about the prospects of China's agricultural development. But some comrades are still taking a pessimistic attitude. Some people even said China is faced with an agricultural crisis. What is your opinion on this?

Wang Lianzheng: Judging from the current situation, China's agricultural situation is both gratifying and grim. Agriculture, which is the basis of the national economy, is still very weak. Over the past few years, China's population has been increasing at a rate of more than 15 million a year. It will continue to grow in the next few years. However, the area of cultivated land has been decreasing year by year, at a rate of 3 to 5 million mu a year. This is really a worrisome situation. Moreover, there are many other problems, such as serious soil erosion, deterioration of the ecological environment, low agricultural input, poor basic facilities, low disaster-fighting capacity, and insufficient momentum for future development.

However, we must not lose sight of the great potentialities in our agricultural development. Statistics show that in our country, medium- and low-yield land constitute about two-thirds of the cultivated land. If they are transformed and improved, our grain output can at least be increased by tens of billions kg. In our country, there are still 500 million mu of uncultivated land suitable for agricultural production, more than 4 billion mu of grassland and green hills and slopes, 85 million mu of fresh water area, and 30 million mu of coastal shoals that can be used for agricultural development. The rational development and use of these resources will greatly increase our agricultural productivity. In addition, there are great potentialities for increasing agricultural output by rationally readjusting the agricultural structure, improving the farming system, and increasing the multiple cropping

index in light of local conditions. There is also ample scope for applying modern science and technology in agricultural production.

Meanwhile, the development over the past years has laid a very good foundation for our future agricultural development. Now the peasants are enthusiastic in promoting agricultural production. The idea of strengthening the position of agriculture as the foundation of the national economy has become a common understanding of the whole party, the whole nation, and the whole society. Especially, since the Fifth Plenary Session of the 13th CPC Central Committee, the whole party and the whole nation have been mobilized to concentrate their strength on agricultural development. A new upsurge has appeared in the drive to support agriculture. These are all favorable conditions.

From this we can see that it is wrong to take a blind optimistic attitude toward our agricultural situation and neglect our existing problems; it is also unrealistic and groundless to say that our country is faced with an agricultural crisis and to be pessimistic about the prospects of our agricultural development. What is important to us is to adopt effective measures and correct policies to strengthen leadership over agricultural production and give full play to the role of science and technology in agricultural development. We must also improve the basic conditions for agricultural production and strengthen the social service system for rural areas. Only thus can we achieve a sustained and steady development and create a new situation in our agricultural production.

Reporter: Judging from a long-term point of view, in order to further develop agricultural production in China, apart from continuing to transform medium- and low-yield land, reclaim uncultivated land, improving agricultural policies, and increasing agricultural input, it is especially important to give full play to the role of science and technology. But how great will the role of science and technology be in promoting agricultural development? It seems that it is still hard for us to get an answer to this question at present. As I have learned, you are an expert engaging in the study of agricultural technology for many years and are concurrently president of the Chinese Academy of Agricultural Sciences. Could you say something about agricultural science and technology and the agricultural situation?

Wang Lianzheng: Yes. I think I will first of all show you some figures. During the period of the sixth 5-Year Plan, 35 percent of the increase in the total agricultural output value was achieved by improving agricultural science and technology. This percentage will become even bigger in the period of the seventh 5-Year Plan. First, in improving agricultural science and technology to increase output, the popularization of the improved varieties of crops and hybrid rice has played a major role. For example, the area of hybrid rice was expanded by 1.2 billion mu in the past years. If rice output was thus increased by 50 kg per mu, it could bring about an

increase of 70 billion kg. More than 200 million mu of hybrid maize were grown. If maize output was thus increased by 100 kg per mu, there could be an increase of more than 20 billion kg a year. A new method for management of wheat field was applied in several provinces and regions in successively four years, which brought about an increase of 1.12 billion kg of wheat in more than 4 million mu of wheat fields. After popularizing some improved varieties, the outputs of cotton, beans, and oil crops were also greatly increased.

Second, improving the soil, rationally applying fertilizer, and the new water-saving irrigation technology have also played a great role in increasing agricultural output. As a result of improving the saline-alkali soil building new irrigation works in Shangqiu, Henan Province, and Yucheng in Shandong by the Academy of Agricultural Sciences, the grain and cotton outputs there were increased by more than 200 percent. In the study of red soil in southern China, some effective methods were found to increase the efficiency of chemical fertilizer. In the past three years, chemical fertilizer was applied in more than 200 million mu of land there, bringing about an increase of more than 5 billion kg of grain.

Third, remarkable achievements have been made in the effort to prevent and control plant diseases and eliminate pests. Some comprehensive measures have been adopted to control the spreading of yellow rust in wheat fields. As a result, the loss of more than 500 million kg of wheat a year due to this disease was prevented. The control of armyworm has reduced the loss of 2.5 billion kg of grain a year. A comprehensive system for preventing and controlling cotton diseases in some regions has been established, saving 30 to 40 percent of farm chemicals and pesticides in several million mu of cotton fields.

Fourth, the achievements made in veterinary medical research has vigorously promoted the development of animal husbandry. Experiments have been made among more than 40 million heads of commodity lean-meat pigs in order to increase the output of pork, the lean-meat rate has reached more than 53 percent, an increase of 14 percent compared with the pigs raised before. The techniques for chicken raising have also been improved. After a quick raising for 56 days, the average weight of chickens reaches 1.8 to 1.9 kg. The problem of infectious diseases, which seriously obstructed the development of animal husbandry, has not been solved for a long time in history. A vaccine successfully produced some years ago won the first national prize. It is 100 percent effective for preventing infectious diseases for donkeys and 85 percent effective for horses. Remarkable achievements have been made in fresh water fish-farming, and the improved technology of shrimp farming has been applied in 2.4 million mu of shrimp farms, the per-mu yield of which has been increased from 29 kg in 1982 to the current more than 80 kg.

Moreover, various localities have achieved a significant progress in carrying out their bumper harvest plans and

"food and clothing" projects. Especially, since last year, when the State Council called on various localities to promote agricultural development by means of science and technology and the Ministry of Agriculture decided to name this year as the year of popularizing agricultural science and technology, various localities have adopted the method of science and technology contract to effectively mobilize the enthusiasm of the vast numbers of agricultural science and technological personnel. Considerably great achievements have been made in this respect.

From the above situation we can see that science and technology can play an enormous role. Of course, we still have not yet given full play to this role. In some developed countries, they owe 80 percent of their agricultural growth to technological progress. But in our country, this percentage is still less than 40. In my opinion, if we make it 10 points higher, great changes will take place in our agricultural situation.

What I said is not groundless. For example, in the next few years, if we can successfully popularize the new varieties developed during the seventh 5-Year Plan and develop the new generation of grain, cotton, and oil crops, the agricultural output will then be increased by 10 percent or so. The popularization of the new fertilizer applying technology will increase the chemical fertilizer utility rate from the current 30 percent to 40 percent and the per-mu yield will increase by more than 11 percent. If the water-saving irrigation technology is appropriately popularized in some areas, the index of effective use of water can be increased from the current range between 0.25 and 0.4 to a range between 0.5 and 0.6. The further application of the new technology for prevention and control of plant diseases and pests can reduce the percentage of grain loss to a range between 5 and 7 and that of cotton loss to about 8. By adopting new technologies in animal breeding, the ratio between fodder and pork can be reduced from the current 5:1 to 4:1 or even lower and that between fodder and eggs can be reduced from 3:1 to 2:1. That will be equal to an increase of several million tons of meat and eggs.

To put it more concretely, hybrid rice has played a great role in increasing grain output. But at present, there are only 200 million mu of hybrid rice, constituting 40 percent of the total rice growing area of our country. If it is also grown in another 100 million mu of fields, grain output will be increased by 10 billion kg. If the area of hybrid maize fields is expanded by 50 million mu and the new plastic sheet and chemical fertilizer application methods are adopted, the output of maize will be increased by 7.5 billion kg. If the new technology for cotton production is further popularized in 10 million mu of cotton fields, the cotton output will be increased by 10 million dan.

To sum up, there are bright prospects in the development of agricultural science and technology. We may say that in order to solve the current problems in agricultural development, we must rely on science and technology; in

order to promote our agricultural development and realize modernization in agricultural production, we must also rely on science and technology. Just as was pointed out by Comrade Deng Xiaoping, in the final analysis, we must rely on science and technology to solve our agricultural problems.

#### **Egg Procurement, Sale Price**

40060053D Beijing JINGJI CANKAO in Chinese  
21 Jun 90 p 2

[Summary] From January to the Spring Festival, the procurement price per kilogram for eggs was 4.80 to 5.20 yuan, the sales price was 5.20 to 5.70 yuan; in March the average procurement price was 4.14 yuan, in May it was 4.22 yuan; in March the average sales price was 4.42 yuan, and in May it was 4.74 yuan.

#### **Tibet Makes Headway in Building Irrigation Works**

OW0307121690 Lhasa Tibet Television Network  
in Mandarin 1200 GMT 27 Jun 90

[Announcer-read report by station reporter Luo Zhishan, from the "Tibet News" program]

[Text] Under the leadership of the Autonomous Regional Party Committee and the Autonomous Regional People's Government, the masses of peasants and herdsmen in Tibet have built a large number of irrigation works and hydroelectric power stations for developing agricultural and animal husbandry production since the institution of democratic reform.

In spite of financial drain, the Autonomous Regional People's Government has spent an average of at least 10 million yuan annually on water conservation construction since 1986. As of the end of 1989, the autonomous region had built 29 irrigation zones each covering more than 10,000 mu, 5,075 small and medium reservoirs, and 119 machine-operated water pumping stations, and drilled 165 large motor-pumped well. It had also built 353 small rural hydroelectric power stations with a total capacity of 44,309 kilowatts. At the same time, based on local conditions, a number of lakes were developed to build ponds and large wells. At the end of 1989, the autonomous region's effective irrigated area totalled 1,812,000 mu. At the same time, the drinking water problem was solved for the people and livestock in some places.

The construction of irrigation works and hydroelectric power stations has improved local basic production conditions, promoted agricultural and animal husbandry production, and won appreciation from the masses of peasants and herdsmen.

In the 10 years since 1979, (Jiangzi), a major grain producing county in Tibet, has taken water conservancy construction seriously and gone all out to build irrigation and water conservancy projects on farmland during the

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slack season in farming, thereby promoting steady development of grain production. In the past decade, the county's grain and edible oil output increased by 120 percent, an average of 12 percent annually.

(Qumei) Township in Xigaze City used to depend on grain resold by the state in the past 10 years because of backward irrigation facilities. In the past two years, the township drilled scores of motor-pumped wells to solve irrigation problems. As a result, the township's grain output has increased markedly. Since 1989, four households in the township have each sold more than 10,000 jin of commercial grain to the state.

### Animal Husbandry Progresses in Qinghai Province

OW3006101890 Beijing XINHUA in English  
0938 GMT 30 Jun 90

[Text] Xining, June 30 (XINHUA)—Qinghai, one of China's key pastoral areas, reported good progress in its animal husbandry development despite some natural disasters last year.

According to statistics, by the end of May this year the livestock herds had increased by 1.1 million head over the same period last year.

A provincial official said Qinghai was hit by continuous snowstorms last winter and spring, killing 400,000 head of livestock in the Yushu Tibetan Autonomous Prefecture alone.

According to him, of the new-born livestock so far this year, 3.38 million head have survived—up 16.9 percent over the previous year.

The province has trained tens of thousands of herders and veterinarians in advanced rearing techniques, while improving local conditions over the past ten years.

It is learned that the province has 153,000 ha of artificially planted grassland and 333,000 ha of fenced grassland providing good conditions for raising animals.

### Increase in Amount of Farm Machinery Owned by Farmers

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0713 GMT 9 Jul 90

[Text] Beijing, July 9 (XINHUA)—Chinese farmers now own a total of 89.56 billion yuan-worth of farm machinery, an increase of 10.6 percent over last year, Song Shuyou, an official from the Ministry of Agriculture, said today.

At present, China has 280 million kw in terms of machinery power, up by 5.6 percent over 1988, greatly improving China's agriculture production conditions.

Meanwhile, China has established 41,000 organizations to help farm machinery owners utilize the facilities.

According to the Ministry of Agriculture, Chinese farmers earned a total of 60.1 billion yuan extra by running these machines in 1989 and the average mechanised farm household earned 7,524 yuan.

The increase has been especially notable in the country's ten major grain production provinces, such as Jilin, Heilongjiang, Hebei, Jiangsu, Shandong and Hunan. Machinery is now widely used for ploughing, harvesting, sowing and irrigation in these provinces, Song said.

### New Socialist Culture Built on Base of Tradition

90CM0096A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 3, 15 Mar 90 pp 31-47

[Article by Zhang Xinhua (1728 2450 5478) of the Institute of Information Sciences, Shanghai Academy of Social Sciences: "On Using Traditional Culture as a Wellspring To Build a Socialist New Culture"]

[Text] For nearly a century, thinkers and theorists have been engaging in heated debate and struggle concerning the direction that culture has been taking. The bottom line is that China will head in the direction that traditional culture goes.

Since the May 4th Movement, under the guidance of Marxism, after the bloody struggle of the masses under the leadership of the Chinese Communist Party, China marched forth on the socialist road of democratic dictatorship, beginning to guild a socialist new culture. But the struggle over the cultural direction did not end. Under new historical conditions, some used the cultural question for producing essays that boosted a nationalistic nihilism, refuting Chinese cultural tradition and promoting an enlightenment in bourgeois cultural thought, scheming to change the socialist direction by changing cultural direction. The Chinese people now must decide the serious and compelling question as to where traditional culture and China are heading. Because of it, we must now consolidate the sum total of historical experience and the unique characteristics of cultural tradition itself with the demands of the times, putting the half-century of changes in China into the historical context of national culture for intensive study, and use the historical movements of culture to define the direction to be taken by China.

#### On the Historical Legacy and Development of Chinese Traditional Culture

"Culture" has no strict definition; it is rich in connotation. Different scholars, different disciplines using different parameters and different applications come up with dissimilar specific meanings. From a broad standpoint, it harbors three facets: 1) political system, social form, thought concepts, and so on, which we regard as the dominant cultural level; 2) moral principles, prescribed conduct, and so on, are the secondary level; 3) society's cultural psychology, national spirit, and individual quality are the latent or subconscious cultural level. This article seeks to consider culture building under this broad framework.

The traditional culture of China is a secular one with Confucian philosophy as the core. It originated from the Western Zhou period and, after consolidation by Confucius, was firmly established and flourished in the Spring and Autumn period. The soil that nurtured it was the feudal system of Western Zhou and the agricultural economy of ancient China. It complemented the feudal society's production standards, its social structure, and the economic foundation of the time. It was also affected

by the geography, climate, products, and ethnic groups that existed then to form a unique Chinese culture. After 2,000 years of continuity, development, and subtle influence, this traditional culture became the historical guiding principle for the Chinese people's political structure as well as that of society and the economy, the moral guidance, spiritual life, and national convention, forging a civilization that was uniquely Chinese in spirit and conduct decidedly different from any Western model.

Chinese feudal history from the Western Zhou to the Ming and Qing periods is chock full of royal dynasties waxing and waning, creating uneven development of politics, economics, and ideology. All this happened in the foreground of traditional culture with Confucianism at the core. In an overview of this history, we see the following points:

1. Each era established a new culture based on its own characteristics and the requirements of society, yet each did so based on traditional foundations. Of those that established a powerful feudal empire in the aftermath of a major upheaval, the enlightened and the far-sighted exercised political measures in building a new culture based on traditional Confucian culture to wield political power. They did so because Confucian cultural thought was a rather mature secular culture that provided feudal rulers with good governing strategies and concurrently provided society with a common code of conduct. Its center core preserved advantages for the feudal ruler, yet contained the essence of humanism and democracy. But, most important, it manifested the legacy of a national spirit for the Chinese people which had been nurtured in their long-term natural agricultural economy, which guaranteed social order and economic prosperity because of its continuity and development.

2. The cultural continuity and development of each era began with the political requirements and cultural form of the time, had new elements injected, changed and improved upon the old, and absorbed cultural influences from alien peoples and other forces. While its essence still was Confucian, it was no longer that of the primitive or previous times, but had a new spirit. The scholarship of the Han and the Confucianism, Taoism, and Buddhism of the Tang were merged into an amalgamated culture of an amalgamated era.

3. Although cultural continuity and development on the whole have had Confucianism as its core, different periods have seen different directions and different results. Confucianism is a broad system; generally one can say it is a worldly, simple culture which aided in the establishment of benevolent and moral government, but it also contains ingredients for idealism and mystification of the ignorant. If continuity and development do not follow the guidance of Confucianism, it could lead social and cultural consciousness toward passivity and go against the mainstream of cultural development, impeding historical progression. We can consider this as a metamorphosis of traditional culture. The idealist philosophies and hypocrisies of the Song and Ming

dynasties are such metamorphoses because they departed from the active aspects of Confucianism. Many people blamed the stagnation of China's feudal society on Confucian culture. If such criticism stands up, it does so not because of the tradition from Han scholarship, but rather from that since the Song and Ming. This is what history reveals.

4. The decline of traditional culture often follows social disorder and the destruction of the old dynasty. Culture is the spiritual pillar of political structure, economic shape, and social relations; it is the wellspring of social cohesion. The loss of cultural legacy can evoke the destruction of the traditional social structure and deterioration or loss of national cohesion, leading to social turbulence or confusion. And once traditional culture and social structure undergo turbulence or destruction, a long time will pass before another stable order can come about. And the new order must accompany the continuity, rebuilding, and flourishing of traditional culture under new conditions.

5. Cultural continuity concurrently progresses at all three levels. Once it become traditional and is adopted as the thought of the ruling elite and has taken root at the dominant and secondary levels it becomes a hereditary factor; it will inevitably undergo changes as it is inherited by generations. Change is possible, but only under the framework of inheritance. One cannot treat this tradition lightly, particularly one must not go against the psychological inclinations at the secondary and latent levels, tolerance and ability to oppose change. The cultural lifeform is one that progresses through struggle. Traditional Chinese culture, with Confucianism at the core, which until the Opium War had a 1,000 years of powerful roots, could only serve as the reasonable and powerful life support on the massive soil of China. This is history and an unalterable fact, unaffected by the good or bad intentions of anyone.

#### The Value of Traditional Culture in the Building of Culture

As stated above, the culture of the Chinese people is the result of cultural continuity and development through history, and its source is the primitive philosophy of Confucius. His historical thought is the basic support for its continuity and development, manifested in different forms in different eras after benefiting as well as suffering from other cultures and blending with them. The result is the three-level, unique Chinese historical legacy.

This kind of culture was first nourished by the early Chinese agricultural economy to become a unique secular culture. The mainstream is "human morality," not "celestial morality." At the dominant cultural level it prescribed such concepts as "etiquette," "benevolence," "loyalty," and "piety" as political and ethical principles for the sake of maintaining and passing on the feudal social order. The ancient Confucian concept of "etiquette" formalized and ritualized the class distinctions of feudalism as the noble and the base, the superior and

the subordinate, and familial and nonfamilial relationships. "Benevolence" was the ethical principle that governed feudal social structure and social relations. Benevolence was the core of etiquette, etiquette was the expression of benevolence. In approving the whole of etiquette and benevolence, primitive Confucianism proposed the form of the backbone of feudalism and the social class structure and its political principles and rationale. To complement it, "loyalty" and "piety" were brought up as the principles at the secondary cultural level. From the political standpoint, the general principle was "loyalty to the monarch, reverence for the ruler." But there are also other thoughts such as "benevolent governance and moral reign" developing from questions arising from the need to define relationships between people, Man's reason for existence, his conduct, his continued existence, and other philosophical considerations and attempts at some kind of harmony or compromise. Kuang Yaming [0562 0068 2494] (in *Confucius: A Critical Biography*, p. 27, published by Qilu Book Society, 1985) would say, "This kind of culture is the highest degree of crystallization of a feudal society's human wisdom."

The positive aspect of such a culture is to preserve the unity of the Chinese feudal empire and to foster the development of feudal agronomy. Common cultural ties provide powerful binding power, enhance cohesion, and foster the unity of a great national ethnic family with the Chinese at the head. Also helped is the spread of ideology as well as of moral principles, thus influencing a number of East Asian lands in helping them develop their civilizations. The obverse side is that Chinese culture is thus preserved and supported so as to flourish further. As traditional culture, with Confucianism at the core, continues to be enriched, develops, and interacts with elements of other cultures, it still maintains its secular leadership position. In China, where no powerful religion serves as a factor for unity, this is a uniquely significant phenomenon in world civilization.

Of course, there are negative aspects as well. The basic one is that it lengthened the development process of China's feudal society; particularly the philosophical scholarly traditions since the Song and Ming period have been confining, impeding social progress. As the world moved from the long and stagnant period of land power into the era of sea domination and Western culture became a challenge, the courage and weapons to meet the challenge were lacking, and it thus fermented and became the tragedy that has been modern Chinese history. One cannot solely blame traditional culture, but its shortcomings in comparison with other cultures exposed its weaknesses.

Even so, its positive aspects still contain much value for building culture and should be regarded as an important resource for building a socialistic new culture. The reasons are: First, it already is the behavior code for the Chinese people in spirit and conduct. This is undeniable



fact. And this spirit and conduct have made great contributions to the civilization of man and still has functional value in terms of social progress. This is the main point. Blind arrogance and mindless self-effacement both impede the search for truth. Although reality exposes weaknesses in spirit and culture with traditional cultural traces, one cannot blame its backwardness. In one way, the backwardness of traditional culture brought about confusion and psychological knots. This is not necessarily because it failed, but might be because of the inability of the powers that be to utilize its uniqueness. From this point of view, one cannot ignore the value for building a culture that is contained at the secondary and latent levels that are well worth our study and illumination.

Second, this Confucian-laden traditional culture holds positive ingredients usable by socialism; they can be a resource or even a component part of a socialistic new culture. The main aspect is that it is a secular feudal culture providing many principles and axioms on political structure, social order, and even political and social life, as well as moral and ethical conduct. These are roots for far-sighted wisdom. Some that fit the needs of the feudal system were strengthened by historical rulers as tools for oppression. Others that were not so employed have democratic or populist possibilities. For example, the benevolent and moral rule espoused by the Confucian-Mencian schools of thought, the One-World notion, the use of benevolence in social relations, the economic thought of "populist wealth," "give far and wide to aid the masses," "righteous rule," and so on, can all be examples to go by today.

Third, traditional culture emphasizes reality, particularly the reality of living, also the study of social phenomena and moral concepts give rise to modern philosophy and science. It was only after later transformations due to the theories of Zhu Xi [2612 3588], Lu Jiuyuan [7120 0046 3220] and Wang Shouren [3769 1343 0088] that it trod onto the road that killed production progression and the dead end of technological revolution.

What is full of inspirational significance is that Confucian thought had an impact on the West. For example, Ke-li-er [0344 6849 1422] of the United States believed that the Enlightenment of the 17th and 18th centuries had close connections to Confucian thought: "It is more accurate to say that the Enlightenment was similar to Confucian thought than to say it was similar to the Church position at the time. This has already been acknowledged and widely proclaimed by the leaders of the Enlightenment." England's You-si-ta-si Ba-jie-er [Badger] [0327 2448 1044 2448 1572 2638 1422] said in 1731, "Even France... was forced to admit that, in political science, China far surpassed any other nation. No praise is an exaggeration of the greatness of the political principles of Confucius which have been collected, put in order, and critiqued." At this point we are obliged to ask, "If credence is to be given to the cries of those who now seek 'enlightenment,' why do they ignore

the close by and chase after the West? Why are they rejecting the democratic qualities of traditional culture?"

Of course, to meet the requirements of building a socialist new culture, we cannot borrow lock, stock, and barrel. Neither should we accept those portions that are reactionary or feudalistic and so are unacceptable to socialism. Aside from that, after all, traditional culture as a legacy constitutes only one facet and one source for a socialist new culture. What is emphasized here, however, is that reasonable portions of the traditional culture can, after some revision, be usable. The Enlightenment in Europe received some nourishment from China's Confucianism. The launching of the East Asian economies can also be attributed to the cultural traditions of ancient China. All this has been proven to us, if obliquely. Traditional culture contains factors conducive to socialism and a commodity economy.

#### Use Traditional Culture as a Source To Build a Socialist New Culture

Since the Opium War, we have experienced a cultural loss from a fundamental change in traditional culture. The May 4th Movement battered down the old power, awakening the people from traditional conservatism to prepare fervently for the success of the social revolutionary movement under Marxist leadership and established a foundation for thought. After that, as revolution's vanguard and under the leadership of the Communist Party, the May 4th Movement meshed with the workers' movement to put China after undergoing a new democratic revolution on the road to socialism. This was a historical choice made by the people who had tasted all kinds of experiences and defeats after the Opium War. This choice was to open a new road to build a socialist new culture under the guidance of Marxism and the legacy of traditional culture.

But the questions of traditional culture's direction and that of the culture of Chinese society remain unanswered. The struggle over these takes various forms in the face of changing international and internal circumstances. To summarize, there are two incorrect directions:

One is to blame all the reverses and difficulties in our endeavors and reforms on the failings and reactionary aspects of traditional culture and to consider it the culprit for everything, to promote national cultural nihilism, and to emulate simplistically some in the May 4th Movement who arbitrarily batted down everything about Confucius, blindly mouthing empty slogans about "democracy" and "freedom." Those who adhere obstinately to this stand blindly dislike traditional culture, on one hand, and thus oppose its legacy and development. But on the other hand, they also deny Marxism. To them, the only way out, then, is to embrace Western cultural and political systems and to promote an enlightenment in China guided by bourgeois political thought.

A second incorrect direction is "cultural regressionism" and cultural xenophobia. From the view of these people,

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since Western culture is not that desirable either and is inappropriate for China, but Marxism does not seem to have done much for culture-building, then why not close the door and reject everything foreign, reverting to the old road of our forefathers to save China? Some even preach extremism to justify the inevitability of such back-pedaling.

Cultural direction determines the development and destiny of a people and a nation. It is therefore a serious and important question. The first bad direction described above actually boosts national cultural nihilism. Its essential nature is that, in denying the historical accomplishments of the Chinese people, it denies the reasonableness of China of the time and the fact that China had made some historical choices. The small minority of bourgeois liberal "elites" who champion this view blame everything on the backwardness of traditional culture. That way, they can go one step further by denying reality and thus implement a capitalist political system and cultural thought in China, thus diverting the goals and direction of Chinese socialism. The second category's error lies in the failure to recognize accurately the relationship between legacy and development of traditional culture, to misconstrue the culture-building mission of the people at the time, and the failure to attach proper importance to the heavy responsibility that goes with culture building. Instead, they reveled in and bragged of past glories, using the luster of the past to mask their own incompetence and their ignorance of foreign culture. The result would be to drag people and society backward. It is just as harmful as the first one.

From the standpoint of thought recognition, neither sees cultural legacy as having both positive and negative aspects. Neither perceives the coexistence of burden and creativity. Historical reality cannot be altered by burdens or wealth. The reality of science lies in using one's two hands to build a new culture based on tradition. Empty denials and hollow construction cannot solve the problem of cultural backwardness. Only through concrete needs and characteristics of the time, using tradition as a base to inherit, develop, and absorb new endeavors to build a new culture can we enter a new historical era. History has put this mission on the shoulders of the Chinese people.

Overall, we feel that different strategies can be chosen for the three different cultural levels that will pass the test of historical continuity and blend with external cultural influences to build a socialist new culture.

1. At the dominant or primary level, using socialist principles of guidance, denying or discarding those political systems, social structure and political principles that had traditionally served feudal rulers and those feudal theories and notions that stressed fealty to the overlord. In actuality, the form and organization of our national political system under democratic dictatorship have

already negated such traditional structure. But traditional culture still includes some democratic political principles that had never been used under feudalism. These definitely are very significant as models and examples in establishing people's political rights under socialism. In addition, one can also borrow from the reasonable and modernized democratic institutions of Western culture. These can then be merged with those traditional Chinese ideas that are reasonable and, under Marxist guidance, structurally support a major new culture with uniquely Chinese characteristics.

2. At the secondary level, the reasoned aspects of traditional ethical and moral principles must be actively promoted. The traditional moral concepts, such as the four preservations (courtesy, righteousness, frugality, sense of shame), the eight virtues (loyalty, piety, benevolence, love, faith, honor, harmony, peace), when based on the needs of a socialist spiritual civilization and injected with new content that is timely, can form a new social character and shape human relations and can interact with Western culture in a free exchange, natural blending, and come up with a new cultural character. We belittle this point at the peril of being contaminated by external cultural influences, resulting in a cultural aberration.

3. The latent level is the melting pot for our people's deep-set cultural spirit, and it reflects the light from the other two levels. We must recognize it, accept it, and respect it. At the same time, we must steer it toward reform and revolutionary guidelines. Of course, we must absorb progressive external concepts in order to change and revise old cultural attitudes, but this will take time and cannot be done hastily. Otherwise, any gains will be Pyrrhic. Furthermore, compared to the West, China's cultural thinking is not necessarily behind; in some areas, we just might be ahead.

To carry out the task of building a new culture based on tradition, we must make sure of two strategic items:

First, with Marxist and socialist political principles as our guide, we must examine traditional culture intensely and clean up where needed. We must differentiate positive aspects from negative aspects. We must further differentiate between the useful and the useless so that we can come up with a reliable foundation. This is a non-shirkable, non-delayable strategic mission on the moral and cultural frontline.

Second, we must conduct a superior education of the people on traditional culture and widely disseminate it. Academic education curricula should proportionately include it in addition to courses in Marxist and socialist political, natural, and technical sciences. Only by this way can we forge a national spirit and a new man nurtured by a socialist new culture. Today, many people stagger from the loss of cultural roots. Now is the time to awaken them.

### Intellectuals To Earn More for Works

HK3006021290 Beijing CHINA DAILY in English  
30 Jun 90 p 3

[By staff reporter Chang Hong]

[Text] Chinese intellectuals can expect to earn more from their published writings thanks to a new State policy to encourage quality works.

As of tomorrow, publishers will be required to pay 50 percent more to their contributors. Most authors and translators will also enjoy a 30 percent reduction in the income tax from their books or translations.

The readjustments were made by the State Copyright Administration and the State Taxation Bureau in view of price rises in recent years and the comparatively low author's remuneration rate.

The authorities hope the move can ease intellectuals' dissatisfaction with their relatively low incomes. Such readjustments, though moderate, are also believed to be a step towards better copyright protection.

"The rise in contribution payments is widely welcomed by intellectuals," said Ma Xiaogang, an official with the State Copyright Administration.

He added that the current readjustment rate was a compromise between copyright administrators, representatives of writers and publishers.

According to the new standard worked out by the State Copyright Administration, authors will receive 10 to 30 yuan (\$2.12 to \$6.37) for 1,000 Chinese characters written. The current payment is six to 20 yuan (\$1.3 to \$4.2) per thousand characters.

Writers of works with high academic value will be paid up to 40 yuan (\$8.5).

For translators, the payment for 1,000 characters ranges from eight to 24 yuan (\$1.7 to \$5.1). The ceiling for translators of high quality translations is 35 yuan (\$7.4) per thousand characters.

According to the new standard, writers can also get eight percent of the total initial payment for 10,000 copies printed.

The current six-year-old payment standard has drawn constant criticism from academic circles, who voiced their strongest resentment at a gathering of noted figures from the cultural world two years ago.

Following the gathering, the State Council began to consider the readjustment.

The income tax reduction benefits those who earn less than 20,000 yuan (\$4,246) from a single book.

In line with the personal income tax regulation rule enacted in 1986, a writer who earns 800 yuan (\$170) or more from a published book is required to pay tax.

## MILITARY, PUBLIC SECURITY

### Support for Military Industry Seen Necessary 90CM0243B Beijing JIEFANGJUN BAO in Chinese 18 May 90 p 4

[Article by Chen Yanming (7315 3601 2494):  
"Strengthen the Concept of Maintaining Military-  
Oriented Production"]

[Text] Military industrial enterprises, which bear the burden of producing and maintaining military goods, are a major part of our military's logistical support system. Under China's new conditions, these military industrial enterprises have been facing the trials of cutbacks in military expenditures as well as challenges from the commodity economy. In the process, they have shed some of their "military color." To take the example of enterprises that maintain equipment, their actual current maintenance task requires only about 30 percent of their maintenance capacity. After factoring in price inflation, rising costs, and high overhead associated with maintenance work, it has generally turned out that the more military goods they repair, the more money they lose. Desperate for business, these enterprises have had no choice but to transfer large amounts of technical resources and equipment from the military to the civilian sector, thus weakening capacity for production and maintenance of military goods.

In the long run, we cannot effectively prevent the fading of "military color" until military expenditures are increased and the ability to support production and maintenance of military goods has been strengthened. However, military expenditures cannot possibly be increased very quickly or very much in the near future. If we are to prevent the "military color" of military industrial enterprises from fading away, we must adopt special measures.

**We must establish a unified basis for policy.** Currently, military industrial enterprises responsible for military goods are subject to the dual leadership of leading production organs as well as their own responsible departments. Leading production organs measure the success of an enterprise by its profits, while responsible departments measure an enterprise by the quantity of military goods it produces. The various leadership organs should have a unified ideological understanding of the position, nature, role, and developmental direction of military industrial enterprises. They should rely on the same criteria as they formulate various policies vis-a-vis these enterprises so as to avoid the problem of "policies coming from different sources" and having "a daughter-in-law who doesn't know who to listen to."

**We must have a correct "value policy."** The main objective of an enterprise is to make a profit. A military industrial enterprise is no exception. Military industrial enterprises bear the burden of producing and maintaining military goods, and they directly create value for

troops by producing equipment. This cannot be measured simply by profits. Many military industrial enterprises now use large amounts of their income to supplement production of military goods. Although this reduces profits, it creates value—stronger combat capability for troops. When enterprise leadership organs guide, inspect, and evaluate military industrial enterprises, they should fully affirm the worth of this type of value. They should consider this together with enterprise profits as they make their evaluations. Their evaluation should fully and objectively reflect the fruits of labor, and they should protect the enthusiasm of enterprises for "putting the military first."

**We must formulate policies that treat every situation according to its own merits.** We must take actual conditions of enterprises that produce military goods into account as we plan enterprise development, formulate income and profit retention norms, hand down production tasks, supply raw and semifinished materials, and provide fund guarantees. Our policies must distinguish between military industrial enterprises and other types of enterprises. We cannot treat them all the same. Military industrial enterprises should be allowed to retain most of the income that they derive from civilian production, and it should be used mainly to "maintain military-oriented production" in order to ensure the fulfillment of production quotas for military goods. They need to strengthen their ability to maintain military-oriented production.

### Yuanwang Survey Ships Refitted 90CM0243D Beijing JIEFANGJUN BAO in Chinese 20 May 90 p 1

[Article by Li Yang (2621 7122): "Refitting of Yuanwang-Series Tracking Ships Assessed"]

[Text] "The pearls of China's space-flight tracking-and-control network—the Yuanwang I and II survey ships—have reached advanced international standards in their overall performance." This is the conclusion reached by 27 Chinese specialists in space flight, optics, electronics, and tracking and control after gathering yesterday and today in a certain place in the Jiangnan region to review and assess technological upgrading performed on the two Yuanwang tracking-and-control ships.

The Yuanwang tracking-and-control ships, which China designed and manufactured itself, completed many major tasks involving maritime tracking of space launches between 1979, when they went into service, and 1986. In order to meet the needs of flight-testing the new generation of long-range missiles, as well as various new types of applied satellites, China began moderate repairs and technological upgrading of the Yuanwang tracking ships in April 1986. With the coordinated effort of more than 70 scientific research institutes and factories throughout China, this huge, complex systems engineering project was completed on schedule in October

1987. In the last two years, the upgraded Yuanwang tracking ships have journeyed far into the Pacific Ocean four times, doing an outstanding job of maritime tracking and control for the launching of three communications satellites and one submarine-to-surface missile launch. They also made an important contribution last April in the launching of the Asiasat-1 communications satellite.

### **Crippled Plane Lands Safely**

90CM0243C Beijing JIEFANGJUN BAO in Chinese  
22 May 90 p 1

[Article by He Chuanbin (0149 0278 2430) and Yu Aiguo (0060 1947 0948): "Feng Congqing Flies Heavily Damaged Plane to Safe Landing"]

[Text] Yesterday afternoon, Lieutenant Colonel Feng Congqing [7458 0654 3237], the deputy political instructor of a certain Air Force regiment, maintained his composure in the face of danger and successfully restarted the engine on his fighter jet after it had been seriously damaged by a foreign object.

At 1420 hours on 18 May, as Feng Congqing was undergoing training for special maneuvers in a fighter jet at a distance of 80 kilometers from the airfield, the engine suddenly began to make strange noises just as he completed his last maneuver. The aircraft began to shake violently. Feng Congqing kept the aircraft flying and attempted to gain altitude. He had climbed only 1,000 meters when the engine stalled out with a large bang. Feng Congqing calmly reported the situation to the ground. He performed nine maneuvers in less than 30 seconds, and 1 minute 30 seconds after the engine stalled, he succeeded in restarting it. Strange sounds continued to come from the engine on the way back to the airport. The situation grew worse as he approached the airfield. The aircraft began to shake intermittently. In order to maintain stability and prevent the engine from stalling again, Feng Congqing decisively went into a long, slow turn to line up with the runway, where he landed safely. An investigation revealed that the engine's two-stage compressor had been completely shattered by a foreign object. To land safely under such circumstances is a rare feat in the history of China's Air Force.

### **Fujian Holds Army, People Relations Conference**

HK0806043390 Fuzhou Fujian Provincial Service  
in Mandarin 1000 GMT 6 Jun 90

[Text] The Fujian Provincial Conference on Commending Advanced Units and Individuals That Have Excelled in the Work of Promoting Good Relations between the Army and People was held in Fuzhou today.

The conference was presided over by Yuan Qitong, deputy secretary of the Fujian Provincial CPC Committee.

Wang Zhaoguo, deputy secretary of the Fujian Provincial CPC Committee and concurrently governor of Fujian Province, delivered a speech at the opening ceremony of the conference.

On behalf of the Fujian Provincial CPC Committee and the Fujian Provincial People's Government, Comrade Wang Zhaoguo extended warm regards to all those attending the conference, including leading comrades from the Chinese Ministry of Civil Affairs, the People's Liberation Army [PLA] General Political Department, the PLA Nanjing Military Region, the Chinese People's Armed Police Headquarters, the PLA East China Fleet, and the Air Force Unit of the PLA Nanjing Military Region.

In his speech, Comrade Wang Zhaoguo pointed out that supporting the Army, giving preferential treatment to revolutionary armymen and martyrs, supporting the government, and cherishing the people have always been the glorious traditions of the CPC, the PLA, and the people of all nationalities. Now, Fujian's reform, opening up to the outside world, and economic construction have entered a crucial stage. By the end of this decade, Fujian will have quadrupled her gross national product and enabled her people to be comparatively well-off. The attainment of this goal requires the efforts of both the local government and people and the PLA troops stationed in Fujian. Therefore, all the departments and comrades concerned in Fujian must strive to further develop all the glorious traditions of the Fujian people and further improve the work of supporting the Army, giving preferential treatment to revolutionary armymen and martyrs, supporting the government, and cherishing the people, under the leadership of the CPC Central Committee, the State Council, and the Central Military Commission.

Su Changpei, vice governor of Fujian Province, also delivered a speech entitled "Make Concerted Efforts To Promote Fujian's Work of Supporting the Army, Giving Preferential Treatment to Revolutionary Armymen and Martyrs, Supporting the Government, and Cherishing the People" at the conference.

In his speech, Comrade Su Changpei said that over the past few years, Fujian has scored gratifying achievements and summed up precious experiences in her work of supporting the Army, giving preferential treatment to revolutionary armymen and martyrs, supporting the government, and cherishing the people. However, Fujian still has to work harder in this respect, so as to meet the demands of the party and the people.

Comrade Su Changpei pointed out that extensively carrying out activities aimed at supporting the Army, giving preferential treatment to revolutionary armymen and martyrs, supporting the government, and cherishing the people is not only of great significance to Fujian's reform and the PLA building but also of great significance to consolidating and developing the fine political situation of stability and unity in Fujian and pushing ahead with

Fujian's reform, opening up to the outside world, and socialist modernization building.

Comrade Su Changpei said that under the new historical conditions, redoubled efforts must be made to further stabilize and perfect all the existing policies, improve service quality, more extensively carry out activities aimed at enabling troops and local people to jointly build civilized villages, civilized schools, and civilized factories with a view to pushing ahead with Fujian's socialist spiritual civilization building and supporting the troops in their comprehensive development. To this end, all the provincial departments concerned must each choose one division to support while various cities and prefectures must each choose one regiment to support. And various townships and towns must each choose one battalion or company to support.

Entrusted by all the PLA troops and the armed police troops stationed in Fujian, Chen Shuqing, political commissar of the Fujian Provincial Military District, delivered a speech entitled "Inherit and Develop Glorious the Tradition of Supporting the Government and Cherishing the People, Make Greater Contributions to Fujian's Stability and Development" at the conference.

In his speech, Comrade Chen Shuqing said that in order to promote the work of supporting the government and cherishing the people, all the PLA troops and armed police troops stationed in Fujian must actively participate in and support the local people's economic construction, take the lead in building socialist material civilization and socialist spiritual civilization in local areas, modestly learn from the broad masses of people, strengthen army building work, independently open up new vistas for the work of supporting the government and cherishing the people.

The opening ceremony of the conference was also attended by leaders of the Fujian Provincial CPC Committee, the Fujian Provincial CPC Advisory Committee, the Fujian Provincial People's Congress, the Fujian Provincial CPPCC Committee, and the PLA troops stationed in Fujian and by a number of retired former provincial party, government, and military leaders as well.

#### **Army Paper on Political Construction Work**

*HK2206023790 Beijing JIEFANGJUN BAO in Chinese  
12 Jun 90 p 3*

[Article by Zhao Chuanxi (6392 0278 0823): "Let Political Construction Permeate the Work in All Fields"]

[Text] In a survey on grass-roots political construction, we have found that some grass-roots cadres frequently regard political construction as an isolated and individual task, which will easily create the phenomenon of "two pieces of skin" [referring to politics and profession] between political construction and other work. For example, after the commencement of armed forces

training, some company and battalion political instructors feel it is difficult to lend a hand to or get involved in political construction. They are not good at making ideological and political work permeate military training and at tackling the problem of helping cadres and fighters heighten their morale in training. Neglecting this problem would make it impossible for political work to effectively perform the function of a "lifeline."

How should we change this condition? According to our investigation and study, we should at least solve the following three problems.

It is necessary to correctly deal with the relationship between political construction and all other kinds of construction and work, and firmly establish the guiding thought of letting political construction permeate all spheres of work. In the various kinds of construction and work of our armed forces, political construction is our primary task, but it is closely related to all other kinds of construction and is by no means an isolated and individual task. Reinforcing political construction is dependent upon the permeation of political work into all kinds of practical work and the completion of all kinds of tasks. Political construction should never exist by itself and be dealt with separately, without being intertwined and interrelated with other work. Politics and economics and politics and military affairs are dialectically unified and complement each other. Military work and economic work are not separated from political work. If separated from political work, military work and economic work would lose their direction and lack spiritual motivating power. Similarly, political work cannot be separated from military work and economic work. If political work is separated from the object to which it renders its "service" and "guarantee," bringing into play its function of "service" and "guarantee" is also out of the question. Accordingly, in our work, on the one hand, we should prevent the tendency to ignore political work, thinking that by performing military training and other work well, political construction will naturally tend to go on the right track; on the other hand, we should also prevent the tendency to stress only political construction and ignore or slacken military training and other work, so as to learn how to get political construction permeating various spheres of work of the armed forces and carry out the all-round construction of the armed forces in a down-to-earth way.

We should focus our attention on the fundamental task of guaranteeing the perennial political eligibility of officers and soldiers and be good at making political construction permeate all spheres of work. Guaranteeing the perennial political eligibility of officers and soldiers is the fundamental task of political construction. To make political construction permeate all spheres of work, it is necessary to contemplate our problems and launch our work closely around this fundamental task. For example, in military training, one of the important reasons some comrades are not highly motivated is the vague perception of the current international strategic environment and the changes in the new situation of

international struggle, resulting in the lack of motivating power for training. In the light of such circumstances, in order to make political construction permeate training and to fully mobilize everybody's initiative for training, it is necessary to strive to reinforce officers' and soldiers' alertness to the presence of the enemy, alertness to class struggle, and consciousness of their duties as servicemen. It is necessary to help cadres and fighters realize that although there has been an overall tendency toward an easing of tension in the current international situation, the world is still not at peace, with contradictions, struggles, and destabilizing factors still existing widely. The conditions in the surrounding areas are not peaceful, either. In particular, the international hostile forces have never abandoned their attitude of being antagonistic toward and subverting our socialist system. There still exist, within our country, forces hostile to and vainly attempting to subvert socialism. As defenders of our nation and defenders of socialism, our armed forces should not relax their vigilance for a moment or forget their own responsibilities. We should make clear the sacred duties of a soldier, keep our minds clear, maintain sharp vigilance, be forever prepared, and be revolutionary fighters who are politically eligible all the time. Again, in rear-service construction, for example, many personnel in our units are dispersed and have wide social contacts. Most of them are in charge of money and property. To make political construction permeate rear-service construction, it is necessary to deeply launch education against corruption and peaceful evolution, and earnestly strive to reinforce political alertness and the ability to guard against corruption and peaceful evolution, to enable cadres and fighters to withstand the test of reform, opening up, and the development of commodity economy.

It is necessary to help grass-roots cadres and backbone ideological workers grasp the practical methods of making political construction permeate all spheres of work. True, there exists a problem as to the methods and ability of making political construction permeate all spheres of work. At present, the task of political construction is very heavy and the grass-roots cadres are new and lacking in experience. Therefore, the leadership and the authorities should reinforce concrete studies and practical guidance, and regularly adopt a series of effective methods such as "small discussions" and "on-the-spot viewing and emulation," to help grass-roots political cadres and backbone ideological workers learn and grasp the principles, contents, timing, and methods of making political construction permeate all spheres of work, and study and explore the new conditions and new problems encountered in the process of such permeation. Recently, in order to help company political instructors reinforce their foresight and ability to tackle ideological and political work in the course of military training, some units have conducted forecasts with respect to ideological conditions that may emerge in the various stages of military training, ascertained the focal points for each stage of work, and guaranteed that political construction will permeate all spheres and links of work in different stages. The results have been relatively good.

#### **General Helps Sick Soldier Get Emergency Treatment**

OW2406050490 Beijing XINHUA Domestic Service in Chinese 0813 GMT 20 Jun 90

[By correspondents Zhang Lanlin (1728 5695 2651) and Chen Fuyu (7115 4395 3768)]

[Text] Shenyang, 20 Jun (XINHUA)—A grassroots doctor accompanied a soldier with bone cancer, entering the director's office of the Shenyang Military Region General Hospital. He submitted a personal letter from Lieutenant General Song Keda, political commissar of the Military Region. Acting on the instructions given in the letter, the hospital director promptly organized forces to provide emergency treatment for the soldier.

Wang Yanjun, the patient with bone cancer, is a communications squad leader of the first battalion of a regiment under the Military Region. During training in early May this year, he felt a sharp pain in his right leg. Doctors of the hospital where he was stationed treated him and diagnosed the illness as bone cancer. An operation was performed on him in late May. Because of the limitation of the hospital's radioactive and chemotherapy equipment, cancerous cells spread again shortly after the operation.

On 8 June, Song Keda of the Military Region learned about Wang Yanjun's illness during the political commissar's stay at the grassroots unit to gain firsthand experience. After inquiring into the illness, the political commissar suggested that Wang Yanjun be transferred to the Military Region General Hospital. He promptly wrote a letter to the director and the political commissar of the General Hospital, asking them to do everything possible to save the soldier's life. The regiment commander immediately dispatched a doctor and a special vehicle to take Wang Yanjun to the Military Region General Hospital. The story of a military region political commissar writing a letter to make arrangements for a sick soldier soon spread in the Military Region. The general's affection for soldiers has deeply touched and inspired the large numbers of officers and men. Filled with emotion, Wang Yanjun's parents told the regiment commander that with such a good chief, they can rest assured!

#### **History of War of Liberation Published**

OW2906130490 Beijing XINHUA Domestic Service in Chinese 0745 GMT 23 Jun 90

[Text] Beijing, 23 Jun (XINHUA)—A long military work on the War of Liberation entitled *Inside and Outside the Great Wall* was recently published by China Youth Publishing House. Nie Rongzhen wrote an inscription for the book.

Consisting of abundant historical facts and using simple but vivid descriptions, *Inside and Outside the Great Wall* deals mainly with the historic events of the War of Liberation on the battlefields of northern China. All important military campaigns and battles that occurred on the battlefields of northern China in that period are realistically and vividly narrated in the work, which is like a long

picture scroll recording the history of the battles of Shanxi-Chahaer, northern China, and northeast field armies.

The book is not only a rich, lively, and valuable history of the war, but also a literary work. While describing the decisive fights over two types of destinies and two types of futures for China, the book uses images of many persons to show the intelligence, courage, resourcefulness, and disposition of the older generation of revolutionaries, including Mao Zedong, Zhou Enlai, Zhu De, Nie Rongzhen, Xu Xiangqian, and Luo Ronghuan, as well as such high-ranking military officers as Yang Dezhi, Luo Ruiqing, Geng Biao, and Yang Chengwu. The book also contains descriptions of the characters and psychological states of important Guomindang figures such as Chiang Kai-shek, Fu Zuoyi, Deng Baoshan, and Yan Xishan.

Yesterday, Yang Chengwu, Yang Dezhi, Wei Wei, and public figures from the literary and publishing circles attended a forum on *Inside and Outside the Great Wall*. They expressed their appreciation for the timely publication of this book of realistic significance on the eve of 1 July.

**Major Changes in Army Reveal Drive for Stability**  
*HK2906025790 Hong Kong HONGKONG STANDARD*  
*in English 29 Jun 90 p 7*

[By Terry Cheng]

[Text] The major changes among the top echelons of China's army officers appears to run contrary to the emphasis on stability in the political leadership.

Of the seven military area commands, six have new commanders or political commissars, Shenyang being the exception.

There have also been changes in the three central departments of the People's Liberation Army [PLA]—The General Political Department, the General Logistics Department and the General Staff Department.

A few months ago the leadership of the paramilitary People's Armed Police was also changed.

Of the 14 military positions—there is one commander and one political commissar for each area—only three were left untouched.

General Yang Baibing, Secretary-General of the Central Military Commission (CMC), and younger brother of President Yang Shangkun, announced the changes during a visit to the military areas in May.

It was reasonable to assume the decision came from "retired" paramount leader Deng Xiaoping, who still has an ultimate say on party and military affairs, and president Yang who is also first vice-chairman of the CMC.

The shuffle is significant in that it comes at a time when the Chinese leadership is stressing stability and unity.

Yuan Mu, the hardline spokesman of the State Council, said there would be no personnel changes at the seventh plenum of the party Central Committee scheduled later this year. The National People's Congress session earlier this year shelved major government changes.

It would appear the changes in the PLA are to bring about more stability and unity.

The military crackdown on the pro-democracy movement last year divided the army.

The changes in the Beijing Military Area Command serves as an example. Commander Lieutenant-General Zhou Yibing and Political Commissar General Liu Zhenhua were replaced by Lieutenant-General Wang Chengbin and Major-General Zhang Gong respectively.

Gen Zhou served for a long time under General Qin Jiwei, the former commander of Beijing command and incumbent defence minister who opposed the June 4 suppression.

Gen Wang is said to be close to General Yang, a key promoter of the military action on June 4.

Maj Zhang, who used to be the spokesman for the martial law troops in Beijing, has strenuously denied that any one was killed on Tiananmen Square.

At a time when the political leadership has hinted it made a mistake in the crushing of the pro-democracy protests, the fact that military officers have been "penalised" for being "negligent" or "passive" during the crackdown gives a different signal.

However, it is wrong to suggest that the changes are prompted only by purges over June 4. The move is also related to the army's modernisation.

The new leaders are young enough to accept the army needs modernising and because they have few connections with first-generation army leaders, they are less likely to form factions.

However, as some of the promotions were made to reward those who backed the June 4 crackdown, they negate a cardinal concept of modernisation advocated by Mr Deng—to depoliticise the army.

Military analysts said the shake-up was aimed in part at preventing commanders from building power bases. Those replaced had served from four to eight years.

Patronage, traditionally important, played less of a factor in the changes.

Only the new commander of Guangzhou Military Area, Zhu Dunfa, fought under Mr Deng during the civil war, while xiang shouzhi, another of Deng's officers was removed from the nanjiang command. The effect on Mr Deng's influence in the army remains to be seen.



## EAST REGION

### Anhui's Lu Rongjing at Meeting on College Party Building

OW0507063190 Hefei Anhui Provincial Service  
in Mandarin 1000 GMT 25 Jun 90

[Text] The four-day provincial meeting on party building at institutions of higher learning closed in Hefei on 23 June. The main objectives of the meeting, sponsored by the provincial party committee, were to convey and implement the guidelines of the national meeting on party building at institutions of higher learning and analyze the current situation of party building at institutions of higher learning in the province; and study ways to strengthen party building at institutions of higher learning.

Lu Rongjing, secretary of the provincial party committee, attended the closing ceremony and delivered an important speech. Yang Yongliang, deputy secretary of the provincial party committee, presented an important report on behalf of the provincial party committee. Also present were Liu Guangcai, Standing Committee member and head of the Organization Department of the provincial party committee; Niu Xiaomei, head of the propaganda department; and (Zhu Chaomei), chairman of the provincial Education Commission and party group secretary.

In order to strengthen party building at, and party leadership over, institutions of higher learning, the provincial party committee has resolved that a working committee on institutions of higher learning be established to serve as a specialized organization under the provincial party committee in charge of party building, as well as ideological and political education in institutions of higher learning.

During the meeting, responsible comrades from party committees in institutions of higher learning throughout the province, as well as leading comrades of prefectural and city party committees, had heated discussions on how to improve the work of party building and ideological and political education in institutions of higher learning. They also raised many constructive suggestions. They unanimously maintained that the conference convened by the provincial party committee was a timely and necessary one. It has deeply inspired comrades in institutions of higher learning, bolstered their confidence, enhanced their awareness, and charted a clear direction for them.

During the meeting, Comrade Niu Xiaomei made arrangements on political work and reregistration of party members in institutions of higher learning.

### Shanghai Judges Present Letters of Appointment

OW0507065790 Shanghai City Service in Mandarin  
0900 GMT 29 Jun 90

[Text] This morning, the municipal people's congress Standing Committee held a ceremony for presenting letters of appointment at the municipal Higher People's Court.

Chen Tiedi, vice chairman of the municipal people's congress Standing Committee, presented letters of appointment to 33 judicial personnel, including (Qiao Xianzhi), vice president of the municipal Higher People's Court. (Qiao Xianzhi) and 32 others were appointed to their posts at the recent meetings of the municipal people's congress Standing Committee.

It was the first time in this municipality that the municipal people's congress Standing Committee had held a ceremony to present letters of appointment to judges. It is learned that this will become an established system in the future.

Chen Tiedi spoke at the ceremony, urging the judges to firmly keep in mind the things entrusted by the people, act strictly according to law, and be good judges, trusted by the people.

### Jiangxi Calls Back the 'Spirit of Jinggangshan'

HK0207111590 Nanchang Jiangxi Provincial Service  
in Mandarin 1000 GMT 29 Jun 90

[Excerpts] The first seminar on the spirit of Jinggangshan ended in Nanchang on 29 June.

The seminar was sponsored by the Jiangxi Provincial Jinggangshan Spirit Research Institute.

Provincial party committee Secretary Mao Zhiyong called on all representatives to the meeting and had photo taken with them. [passage omitted]

More than 80 cadres engaged in propaganda, theoretical and party history work as well as experts and academics from organs directly under the provincial authorities, universities and colleges, and party history research offices at the prefectural, city and county levels gathered together to discuss in depth the intension of the Jinggangshan spirit, its historical role, its social effect and the significance of inheriting and carrying on the Jinggangshan spirit under the new historical conditions.

Participants in the meeting maintained that the Jinggangshan spirit was a crystallization of the fine traditions of our party which had been built up in the practice of revolutionary struggles, which highly embodied the nature and aim of our party, and gave expression to communist ideals, conviction, morals and values. The content of the spirit is rich and profound and is a huge treasure-house of spirit. The Jinggangshan spirit is a precious heritage of our party and also the superiority of our party.

When expounding the intension of the Jinggangshan spirit, many comrades pointed out: Lofty ideals and firm conviction are the core of the Jinggangshan spirit, the spirit of seeking truth from facts is the foundation of the Jinggangshan spirit, revolutionary outlook on life and world outlook are the essence of the Jinggangshan spirit, and self-reliance and hard working are the major content of the Jinggangshan spirit.

Participants in the meeting also pointed out that the Jinggangshan spirit had played an incalculable, great historical role in the Chinese revolution and socialist construction and produced far-reaching social effect. One of the important reasons that the revolutionary cause led our party cloud grow and flourish and cloud finally win victory throughout the country was just because the Jinggangshan spirit was inherited, enriched and developed. The Jinggangshan spirit can be traced to the same origin of the Long March spirit and the Yanan spirit. It is the important ideological prop for the success of the Chinese revolution and economic construction and the eternal source of strength. [passage omitted]

Participants in the meeting held that inheriting and carrying on the Jinggangshan spirit under the new historical conditions is of great importance to upholding the four cardinal principles, resisting the influence of the trend toward bourgeois liberalization thinking, foiling the imperialist scheme of peaceful evolution, strengthening the effort for a clean government and maintaining closer ties between the party and the people and building socialism with Chinese characteristics. [passage omitted]

## SOUTHWEST REGION

### Yunnan Holds Antinarcotics Work Conference

OW2006204190 Beijing XINHUA Domestic Service in Chinese 0758 GMT 15 Jun 90

[By reporter Luo Ping]

[Text] Kunming, 15 Jun (XINHUA)—The Yunnan provincial work conference on banning narcotics came to a close in Mangshi recently. The meeting pointed out that, while intensifying cooperation with other countries in stopping the source of narcotics, party members and the masses should be mobilized to wipe out narcotics throughout Yunnan.

Because narcotics production keeps expanding outside Yunnan, the province is confronted with ever-increasing harm caused by narcotics. This being the case, the meeting said that, under the leadership of the party and the government, a mammoth struggle against narcotics should be launched in the province so as to create an environment in which the public can monitor drug-related crimes and exercise powerful pressure to stop them. The meeting also proposed that antinarcotic organs and special operating groups should be established in all prefectures, counties, and townships; that

leading cadres should be given antinarcotics responsibilities; and that plans should be drawn up so that narcotics trade and the use and production of narcotics can be effectively stopped.

When the meeting was in session, representatives from various localities exchanged their experiences about how they have depended on the masses' support in fighting narcotics. Owing to the masses' support, full-time narcotics personnel in Dehong Jingpo-Dai Autonomous Prefecture, which is located on the antinarcotics forefront, cracked a large number of narcotics trafficking cases last year, and the cracking of nearly 40 cases of them could be attributed to the information supplied by the masses. This year, the prefectural party committee has sent more than 1,800 office cadres to work in the rural areas to help promote material and spiritual construction, focusing on fighting narcotics. Very satisfactory results have been achieved. In Simao Prefecture, the full-time antinarcotics squads have frequently organized their personnel into groups of narcotics reconnoiterers to work with the people in key villages and hamlets to crack down on narcotics trafficking. The actual struggles have heightened the masses' ability to distinguish narcotics traffickers and guard against them. Some villages and hamlets near the border areas have drawn up rules stating that people who report narcotics users and traffickers will be commended.

## NORTHEAST REGION

### Liaoning System Guaranteeing Policy Implementation Praised

90CM0145A Shenyang LILUN YU SHIJIAN [THEORY AND PRACTICE] in Chinese No 5, 5 Mar 90 p 25

[Article by Hou Deyun (0186 1795 0337) entitled: "Cadre 'Concurrent Responsibility' is Useful in Strengthening Rural Grass-roots Organizations"]

[Text] In the process of conducting an investigation of rural party-building work, this author became acquainted with the following set of problems: In some village party committees, the quality of cadre education in rural branch groups is not up to standard, organization is imperfect, cadres are incompetent, rural cadre assignments are too burdensome, and ideological and political work is comparatively weak. On the basis of strengthening branch group reorganization and training and education of party members and cadres by using the "concurrent responsibility" [jian bao 5545 0545] method, it will be possible to strengthen building of rural branch groups. This method involves assigning outstanding party members and cadres a specific responsibility to various rural branches for a specified period, while they concurrently hold the post of branch deputy secretary, participating in the daily work of the rural branch. Through practice, excellent results have been achieved. For the village where I did the investigation, each item of work was conducted relatively smoothly,

the party organization's prestige among the masses was greatly increased, and the embodying power, appeal and fighting power of the branch organization itself were also greatly enhanced.

We know that the party's grass-roots organizations are the foundation of the party, and in the present process of improvement and rectification and deepening reform, properly handling grass-roots organization building will have an even more important effect. It is just as the masses say: "the village looks to the village, the household looks to the household, the masses look to party members, and party members look to the branches." Whether or not rural party branch bodies become staunch cores of leadership is directly related to whether they can properly carry out the party line, guiding principles, and policies, and whether they can unite and lead the masses to persist in walking a road of common prosperity. For a long time, the spirit of the central government's policies and provincial- or municipal-related documents has become lost in the course of implementation among the numerous villages; it has been held up and has not come into villages or households in some areas. Many peasants cannot readily understand the relevant spirit of upper levels, which has often produced a comparatively blurred understanding of the national situation. Previously, some peasants worried about whether the country's policies would change; this is one concrete manifestation of this blurred understanding. This is not conducive to the stability of public morale or the situation. Thus one can see that adopting vigorous measures and fully utilizing rural party branches are imperative in these circumstances.

When he convened last year's national organizational department head meeting, Comrade Jiang Zemin clearly pointed out that the source of the party's strength lay in the grass-roots level, and that detailing outstanding party member cadres to rural branches to implement the "concurrent responsibility" method seemed to be "life-giving water" for strengthening grass-roots organization building. "One asks from where will the pure water come? It will come from the source of life-giving water." In this regard, I have at least four suggestions for doing this work:

1) Strengthen the power of rural branch bodies. All "concurrent responsibility" comrades are specially selected from among outstanding party member cadres. They are in the prime of life, of excellent quality, well versed in policy, and also have certain work experience and the ability to analyze and deal with problems. To a certain extent, this can make up for the shortcomings of those rural branch cadres who are of low quality and incompetent, and strengthen the fighting ability of rural branches.

2) Reduce the work load of village cadres. Village cadres handle many tasks, like "a thousand threads passing through one needle." They must carry out the specifics for matters big and small, like family planning, funeral

and internment reform, irrigation and water conservancy, spring planting, and collecting the agricultural tax-in-kind after the autumn harvest. The work pressure is quite large. Hence, in addition to helping village cadres properly handle "core" work, "concurrent responsibility" party member cadres who go down to the village can also put forth a certain amount of time and energy, organize political study participation by party members and the masses, and see that the relevant spirit of higher levels is disseminated to the peasants in a timely manner. Furthermore, they can answer the peasants and masses' questions on party policy as they arise, and enable the masses to understand and thoroughly grasp relevant national policies, so that they feel at ease and work wholeheartedly to produce and develop the rural economy. In addition, they also can straighten out relations between village cadres, and strengthen the internal embodying power of rural branches.

3) Enable top-level party organizations to understand the real situation and problems faced by grass-roots levels, which will be beneficial to carrying out and developing work. Rural branch deputy secretaries with concurrent responsibilities often stay at grass-roots units to help improve their work, gain firsthand experience, have a prolonged period of contact with the masses, and broaden their horizons. They are capable of listening extensively to the voice of the masses, keeping the masses' well-being at heart. Enable them to be more practical and realistic and follow the mass line when resolving contradictions and dealing with problems, thereby furthering closer relations between the party and the masses. It will have the added benefit of increasing the appeal of party organizations among the people.

4) In order to carry on the cause of the party, discover and nurture those outstanding village party members who have good qualities, high standards, ability and political integrity, and are in accord with the demands of the four modernizations. Thus we can avoid the long-term problems of aging village cadres and an inability to find suitable successors, and enable grass-roots organizations to continuously bring in fresh blood, strengthen newly emerging forces, and always radiate vitality and vigor.

**Value of Individual Said To Lie Within Collective**  
*90CM0194A Nanjing QUNZHONG [THE MASSES]  
in Chinese No 3, 5 Mar 90 pp 21-22, 45*

[Article by Dou Yanguo (4535 3508 0948): "Taking the Branch Road—Correctly Grasp the True Meaning of the 'Value of the Individual'"]

[Text] We have always attached importance to the value of the individual, because we have always thought that socialism is undertaken by the masses themselves, and that success in building socialism depends on arousing and fully displaying the enthusiasm, initiative, and creativity of millions of people. At the same time we oppose putting the individual in an inappropriate position. Over

the past several years some people who profess liberalization have energetically made propaganda for the ethics and value concept of absolute individualism with the self as the center. They advocate a so-called new outlook on value of "giving absolute prominence to the individual's standards" and confuse the people's thinking, thereby causing some people one-sidedly to understand and pursue the value of the individual, which leads to negative consequences. Therefore, it is necessary to conscientiously discuss the following questions pertaining to the value of the individual.

How, in the final analysis, is the value of the individual to be understood?

Advocates of bourgeois liberalization understand the value of the individual from the angle of the individual's standards. This negates the objective basis on which the existence of the value of the individual exists—the actual relationship between the individual and society. It does not give credit to the true content of the value of the individual—the individual's significance for society.

The difference between humans and animals is that humans possess a social nature, and any one individual must develop relations with other people and he can live only in society. The value of the individual can only signify the individual's specific relationship with society. It touches on the society's significance for people, and particularly on the individual's significance for society. On one hand, any individual must depend on society to provide him with a certain position and certain rights before he can exist and develop; on the other hand, any society must seek to have every member of it undertake specific social responsibilities and obligations and to make his own proper contributions. The value of the individual should be a unity of position and responsibilities, rights and obligations, demands and contributions.

The so-called new outlook on value of "absolutely giving prominence to the individual's standards" misconstrues the individual's needs as being his natural, biological, and sensory organ needs; and it goes on to make the satisfaction of these needs of the individual the only way to realize the value of the individual. What they mean to pursue is only the satisfaction of the individual's needs in order to achieve the individual's objectives. They either separate the dialectically united relationship of position and responsibilities, rights and obligations, and contributions and demands, one-sidedly pursue position and rights, do not stress contributions and think that the more demands the individual makes the higher is his value; or they regard this unity mechanically, and look upon the value of the individual as a simple adding together of position and responsibilities, rights and obligations, demands and contributions. Once they make some contributions they make them a means of getting position and authority, and once they have position and authority they make them a tool for demanding private interests.

How can the value of the individual be realized?

Marx pointed out, "In labor I affirm my own individual life, and thus also affirm the characteristics of my individuality. Labor is my true, moveable property" by which "I directly confirm and realize my true essence, namely, my human essence and my social essence." Marx takes man's labor to show man's value, truly revealing the real meaning of the value of the individual, and also revealing the correct way to realize the value of the individual. This shows: 1) Labor is the basis for the formation of relations of man's value. The relations of value between the individual and other people, between the individual and society can be truly manifested only in labor, because only in labor can there be clearly shown what significance the individual's existence has for the needs of other people, and what significance his existence has for society's existence and development. If one is separated from arduous labor, and one does not make actual contributions to other people and to society, one's value as an individual is zero. 2) Labor is the way to realize the value of the individual. Any individual can truly display his own power and talent only in labor, thereby convincingly proving to what degree he can satisfy the needs of other people and society. If one separates oneself from labor, especially from labor that is honest, creative, and of positive significance for other people and society, seeking for oneself what one envisages as the fine value of the individual, then one is only having an idle dream that can never be realized. 3) Labor in itself is the symbol of the value of the individual. When the individual in labor consciously proves his own significance for other people and society, the individual also attains the objective of affirming his own value, and thus shows the authenticity of his own value. If one doesn't proceed from the relationship between the individual and society, then one will proceed from "the self as the center" and the "individual's standards" to seek the value of the individual, and one's outlook on value will at best be no more than a refurbished version of the concept of private ownership maintained by the exploiting class. In a society with private ownership, a small number of exploiters occupy the dominant position in society. They own the great majority of the means of production, and they freely annex the labor results of the laboring people. In the relations in this kind of society, a small number of exploiters think that all of society, including the great number of laboring people, depend on them for existence, and that the development of society also is completely due to their exploitation and oppression of the great number of laboring people. Here, history has been reversed and society has become their tool for engaging in exploitation and pillage. While negating the course of society, they use their power and authority as well as the wealth of society that they seize to show the value of the individual. When revealing the outlook on the value of the individual of the bourgeoisie, Engels pointed out, "Money determines a man's value. To say that this man is worth 10,000 pounds sterling is to say that he has this sum of money. Whoever has money is 'worthy of respect' and is a 'superior person' who 'has influence,' and also in his circle he is the one who takes the lead in all aspects." It is not hard to see that an

outlook on the value of the individual that does not stress responsibilities, obligations, and contributions and only stresses position, authority, and demands is still the outlook on value of the exploiting class.

Under a system of exploitation, labor is a compulsory activity for the laboring people. Labor, which originally was a true embodiment of the laboring people's value of the individual, is alienated by the system of private ownership, and in their labor the laboring people do not get happiness but rather woe. Only under the conditions of socialism, in which there is public ownership of the means of production, in which the workers, peasants, and intellectuals become the masters of society, in which the relations between the individual and other people and between the individual and society are established on a foundation of an identity of fundamental interests, can the laboring people, in the process of pursuing their own high level of development while making more contributions to society, gradually attain their own perfection and more and more fully realize the value of their selves.

Does collectivism suppress and negate the value of the individual?

In a socialist society the various conditions provided to the individual by society still depend on their creation by the common efforts of all members of society, and if there is a separation from the contributions of every individual it will be impossible to satisfy the needs of any individual. Therefore, under the conditions of socialism, the correctly understood value of the individual is bound to possess a collectivist nature; socialism's principle of collectivism in itself also contains the confirmation and affirmation of the value of the individual.

People who advocate bourgeois liberalization do all they can to belittle and downplay the positive significance that the socialist system gives to the laboring people's achievement of the value of the individual, maliciously attacking socialism's collectivist principle as "the suppression and negation of the individual by the whole body" and as "being hostile toward and guarding against the individual, his needs, and his aspirations." This can only show that they depart completely from the fundamental interests of the laboring people and have taken a stand hostile to socialism.

In *The German Ideology* Marx and Engels said that only in the collective can the individual obtain the means for the comprehensive development of his talents; that is to say, only in the collective can there be individual freedom. The strength of the collective is the organically organized strength of the whole. It is not the sum of its individual creative forces, but rather it far exceeds and is much greater than the sum of these creative forces. In primitive society, faced with a wild ox, more than 1,000 single primitive men had no chance to play their tricks, and the value of the individual was zero; when they formed a collective they could completely subdue the wild ox, and here the value of the individual was reflected in the activity of the collective. Following the

development of social production, the realization of the value of the individual even less could be separated from the collective. Even in a capitalist country, where individualism is considered right and proper, that the Apollo project could be realized and an astronaut, by making the first step on the moon, reflect such a great "value of the individual" was also because of the strength of the collective. It was living in the collective that gave him the "freedom" to land on the moon and that greatly magnified his "value as an individual." Comrade Hu Qiaomu [5170 0829 2606] once came up with a good metaphor. He said that the relationship between society and the individual may be compared to the relationship between a tree's roots and its leaves; it will not do for the tree to not have leaves, and even less will it do for the tree to not have roots, so it is said that a tree with deep roots can have luxuriant leaves. Without the collective or society, any individual, first of all, would have no way to exist, and even less could we talk about his value or freedom. Therefore, socialism, first of all, stresses the people's (namely, the collective's) value, and that only in the people's value can every person get value and that only in the collective can the individual, in molding himself and perfecting himself, obtain all-round development and can the value of the individual be fully embodied.

Only by breaking out of the confines of the concept of private ownership and resolutely upholding the historical materialism of Marxism as the scientific method, can we, in the relationship between the individual and society, correctly understand and grasp the true meaning of the value of the individual, and can we find the real way to realize the value of the individual. Only by consciously making collectivism the nucleus and finding the individual's "coordinates" in the collective, can the value of the individual blossom in the collective in radiant splendor. Proceeding from "the center as the self" and the "individual's standards" to treat the question of the value of the individual is bound to create an outlook on life of ultra-egoism, and then fall into a "perplexity" about life and even take an antisocial path.

**Heilongjiang Promotes 'Clean' Government**  
90P30048A Harbin HEILONGJIANG RIBAO  
in Chinese 26 Apr 90 p 1

[Article by reporter Cong Lihang (1783 7787 2635)]

[Summary] In order to systematically promote clean government among agencies subordinate to the province and following provincial party committee and government plans, the Heilongjiang provincial government conducted an investigation of several different agencies against which the masses have lodged complaints. Agencies investigated included the provincial Reception Office, the Heilongjiang International Economic and Technological Cooperation Corporation, the Heilongjiang Coal Industry Management Bureau, and the Heilongjiang Coal Mine General Corporation. The investigation was headed by the provincial Inspection Office and staffed by ten cadres drawn from various

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provincial offices and bureaus. The investigators observed the agencies for five months during the latter half of 1989 and uncovered 1,454 aberrations in four of the units, resulting from the following problems:

- 1) The leadership was neither unified nor powerful; disunity was a common problem.
- 2) Members of the leadership tended to be dishonest and undisciplined.
- 3) The agencies seriously violated financial discipline. The provincial Reception Office was found to have mismanaged 7.4 million yuan since 1985 and the Heilongjiang Coal Industry Management Bureau and Heilongjiang Coal Mine General Corporation was found to have mismanaged 6.9 million yuan since 1986.
- 4) Personnel management practices were undisciplined, with emphasis placed on personal networks instead of merit. For example, the provincial Reception Office overstepped its authority and promoted and transferred groups of people at a time.
- 5) Administrative and management practices were unsound and chaotic. For example, the Heilongjiang International Economic and Technological Cooperation Corporation acted very rashly in making investments and was cheated, causing the state to lose 688,000 yuan. It also did not strictly investigate and supervise the personnel it sent overseas.
- 6) Failure to adhere to economic laws and discipline was a serious problem. Some of the offenses included graft, giving and taking bribes, speculation and profiteering, and abusing one's power for personal gain.

The investigation team concluded that these problems arose because the agencies suffered from a weak concept of clean government, weak political and ideological work, lack of strong and effective supervision systems, failure to adhere to regulations, lack of regulations, failure to follow orders, and failure to observe prohibitions. The team helped the agencies formulate a total of 34 specific regulations designed to close their particular loopholes. The five-month investigation gave the personnel in these agencies a good lesson on clean government and solved some of the friction between them and the masses.

**Wang Haiyan Speaks on Qualifications of Leaders**  
*SK2006005190 Harbin HEILONGJIANG RIBAO*  
*in Chinese 21 May 90 p 3*

["Excerpts" of speech by Wang Haiyan, deputy secretary of the Heilongjiang Provincial CPC Committee, delivered at a forum of the second training class for departmental and bureau-level cadres at and below 45 years of age: "How To Be A Clear-Headed and Qualified Leader"—date not given]

[Text] The topic for today's discussion is how to be a clear-headed and qualified leader. You, comrades,

present here, are the leading cadres to step into the next century, who shoulder the historical heavy task of carrying forward the revolutionary cause and forging ahead into the future, and who are also confronted with a new and severe test. In such a situation, leading cadres at various levels are faced with three choices. 1) They may become muddleheaded persons, 2) they may become mediocre persons or 3) they will become clear-headed, qualified and accomplished leaders. How, then can they become clear-headed, qualified and accomplished leaders? In my opinion, they should resolve the following four issues at present.

### 1. Study Hard To Improve Their Own Quality

Being vigorous and working hard to make progress, our young and middle-aged leading cadres constitute the backbone of our cadre contingent who have much to accomplish and bright prospects for development. However, we should also note that some young and middle-aged cadres often give lopsided emphasis in their routine work, neglecting theoretical study, thus having a poor theoretical understanding and theoretical foundation. Some of them do not even have clear idea on such basic theoretical questions as "what is the Marxist world outlook and methodology," "what is the essence of socialism," and "what principles should be followed when exercising leadership and management." As a result, due to a lack theoretical guidance, they carry out their work in a very lopsided, arbitrary, and unrealistic manner. Such a situation is very incompatible with the heavy tasks they are currently handling and the even heavier burdens they shall bear in the future. We should admit to such a current situation and have a clear understanding of it. Departmental and bureau-level leading cadres should not only be men of action and politicians, but also theorists. Without being theorists, they will become unrealistic men of action. And without being theorists, it will be very difficult for them to become clear-headed politicians. In your current endeavor to successfully lead and manage various undertakings, a very important issue is that you should improve your theoretical understanding and straighten out your methods of reasoning. This requires that you conscientiously study basic Marxist theory, particularly Marxist philosophy, because philosophy is a kind of learning concerning world outlook and methodology and a key to success in all work. It is not enough for leading cadres to study basic Marxist theory alone because Marxism can only guide but not replace other sciences. In addition to basic Marxist theory, leading cadres should also pay attention to studying the party's line, principles and policies, theory on party building, leadership and management sciences, and knowledge in various fields related to their work.

### 2. Maintain Close Ties With the Masses, and Be Loyal Public Servants to the People

Maintaining close ties with the masses, firmly trusting them, closely relying on them and serving them wholeheartedly constitute the party's basic line, are the starting

and ending points of all the party's work, and a magic weapon for achieving success in the revolution and construction of our country. The reason for our repeated stress of the need for leading cadres to maintain close ties with the masses at present is that since our party came into power, especially since reform, opening up, and the development of the commodity economy, some cadres have developed a vague conception of public service, laid less stress on the party's fine traditions, developed the bureaucratic style of divorcing themselves from the reality and the masses, and failed to put themselves in a correct relationship to the party and the masses, and find a proper position for themselves. In this way, it is impossible for them to win the support of the masses, and become qualified leaders. If they do not correct this, sooner or later they will regret it. To become clear-headed and qualified leaders, they should resist the corrosion of the ideas of the various exploiting classes, enhance their conception of public service, firmly embrace the idea of serving the people wholeheartedly, and carry forward the spirit of utter devotion. They should firmly trust the masses, rely on the masses in everything, and go deep into the masses to understand their feeling, desires, opinions, demands and voice, and share a common fate with them. In making decisions on all issues and in carrying out all work, they should proceed from the fundamental interest of the masses, and resolutely do everything compatible with their interests. They should accomplish everything they promise, to win the trust of the people and, when their individual interests conflict with the people's interests, they should subject themselves to the people's interests and even sacrifice all their interests to meet the people's interests without hesitation and reluctance. Our leading cadres should also have the courage and ability to struggle against any deed that violates the people's interests. In addition, our cadres should have the ability to carry out work on the masses. Improving the ideological awareness and work ability of the masses is an important reflection of our party's mass line, and also the basic work for accomplishing the four socialist modernizations.

### **3. Take the Entire Situation Into Account, and Have the Ability to Carry Out Major tasks**

Taking the entire situation into account and making overall plans for it are the most important functions of leaders.

To be a clear-headed and qualified leader, one must take the entire situation into account, and have the ability to carry out major tasks. Comrade Mao Zedong said that the responsibilities of leaders are 1) to supply ideas, and 2) to use cadres. These two responsibilities are the major tasks leaders should carry out. Whether leading persons can carry out their major tasks and carry them out successfully is an important criterion for judging their leadership.

The first major task for leading persons is to supply ideas. To supply ideas means to take the entire situation

into account, have a correct grasp of direction, provide strategic ideas and goals for work and major points of work in a timely manner and, based on the major points of work, take the initiative in assigning tasks to lower levels and supervise their fulfillment.

Leading cadres should attend to major tasks and key tasks. Always bearing the entire situation in mind, they should find out the key issues and key links that have an influence on the development of the entire situation when they are carrying out their work, and focus on those that affect the entire situation. This requires leading persons to adopt scientific theories and methods, such as material dialectics and systems science, and have the ability to discover major contradictions amid complicated matters to avoid unrealistic work; that they have the ability to judge problems from the viewpoint of the entire situation, and organically combine their own work with work concerning the entire situation to avoid narrow-mindedness in doing work; and that they should base themselves on both immediate and long-term interest when considering work, and have the ability to master trends in the development of things to avoid arbitrary work. To carry out major tasks, leading persons should also perform their work by relying on leading bodies as a whole and the masses. In the process of doing work together with leading bodies and the masses, leading persons should find a proper position for themselves, clarify their responsibility, earnestly attend to the work which others have difficulty in doing or cannot do successfully if they do not carry it out personally, and do not attend to the work which others can do without a leading persons' personal attention, or work whose performance by others will be affected if leading persons attend to it personally. Only in this way can they fulfill the duties and responsibilities of their work.

The second major task for leading persons is to use cadres, which is also a task concerning the entire situation. Comrade Mao Zedong said: "When the political line is defined, cadres become the decisive factor." He approached the issue on cadres from the strategic viewpoint of regarding cadres as the decisive factor for whether the political line can be implemented. From this, we can see how important the issue of cadres is. This issue consists of two parts: 1) having the ability to distinguish cadres, and 2) correctly using and cherish cadres. Distinguishing cadres is the prerequisite for successfully using cadres. If leading persons fail to historically, comprehensively, and accurately examine and distinguish cadres by the criterion of having both political integrity and ability, it is possible that they may use cadres with unhealthy ideas and work styles, and mediocre ability. A mistake in selecting and using personnel will lead to other mistakes in work in other fields. In a certain sense, a mistake in selecting and using personnel causes a greater danger than mistakes in other work.

Furthermore, having problems in using cadres, leading persons are bound to deviate from the masses and are doomed to fail. This has been proven by countless historical experiences. We should draw lessons from



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them, and attach great importance to the use of personnel. In doing the work related to cadres, leading persons should proceed from the public's interest, promote cadres and put them in important places in line with the principle of the "four requirements" contingent on cadres and the criterion of having both political integrity and ability, develop their strong points to offset their weak points, and give maximum play to the advantages of cadres. Meanwhile, we should also show concern for and cherish cadres, and help them resolve practical difficulties to eliminate their misgivings. If leading persons fail to be fair to cadres who should be treated fairly, and fail to protect those who should be protected, they will be deemed derelict in their duties, lose the trust of the people, and fail to establish correct practices within the party and among the people. Leading persons should also pay attention to improving the quality of cadres and to training, and overcome the shortsightedness characterized by using cadres without training them. Placing strict demands on cadres also means showing concern for and cherishing cadres. Proceeding from the desire for unity, leading persons should criticize and render help in a timely manner so cadres can overcome their defects and mistakes. They should strictly deal with and never tolerate cadres who violate law and discipline because such tolerance will harm not only to these cadres but also the party's cause.

### 4. Have Courage and Insight and Improve Policy-making Ability

Policymaking is the basic skill of leading persons. Whether or not they can always achieve correct policymaking is a comprehensive reflection of their ability, and an important criterion by which to judge whether they are qualified. Therefore, all leading cadres should study well the theories on policymaking to improve their policymaking ability and master the skill of policymaking in a down-to-earth manner. To achieve correct policymaking, they should have both courage and insight for policymaking. Whether or not leading persons dare to make policies is, in essence, an issue concerning whether or not they have courage and insight. Cadres who pursue personal interests and are timid and overcautious will not accomplish anything great, nor will they win the support of the masses. To have the courage and insight for policymaking, leading persons should strengthen their efforts to transform their world outlook, eliminate selfish ideas and personal considerations, overcome the idea of being a good old man, free themselves from the shackles of unprincipled connections, consider the interests of the party and the people in doing everything, uphold the belief in building a party serving the interests of the people, and adhere to party spirit and principles. Only in this way can they make decisions whenever they should and lose no time in facilitating their undertakings. When stressing the courage to make policy, we also demand an ability to make policy. The ability for policymaking means having a scientific and democratic approach in policymaking. By scientific approach, we mean strictly following scientific procedures for policymaking, adopting scientific policymaking methods, and

making policies in line with actual conditions. It requires us to go deep into the grassroots, conduct investigation and study, comprehensively, systematically and thoroughly understand the situation in all the fields related to the policies to be made and, based on this, adopt scientific methods to analyze and judge them, and formulate numerous plans for comparison and selection so that the policies made will conform to the actual conditions as much as possible. By democratic approach, we mean to pool the wisdom and efforts of most people and boost their enthusiasm. When making major policies, we should follow the basic work method of coming from the masses and going to the masses, and modestly pay attention to the opinions of the masses, especially dissenting opinions. We should implement the principle of combining the efforts of leading persons, experts and the masses, and pool the wisdom of the people from various fields. We should follow the principle of and procedure for democratic centralism, and give play to the collective role of leading bodies. The democratic approach in policymaking enables us not only to pool the wisdom of everyone and correctly make policy, but also to enhance the sense of democracy and participation by lower levels and the masses so that they will have more initiative in policymaking and better implement the policies. Of course, I do not mean that all policymaking should follow the same complicated procedures. With regard to some specific routine work, anyone who has responsibility has the right to make decisions. Even so, leading persons should pay attention to the opinions of the masses, and try to win their understanding and support.

## NORTHWEST REGION

### Ningxia Successful in Punishing Criminals

HK2606063890 Yinchuan NINGXIA RIBAO in Chinese  
7 Jun 90 p 1

[Report by Xu Kun (6079 3824): "This Region Has Scored Remarkable Achievements In the Struggle of Dealing Blows to Criminal Offenders"]

[Text] While dealing heavy blows to serious criminal offenses, political and judicial organs in this region have been actively implementing the policy of "combining punishment with leniency" in processing criminal cases. They urge offenders to give themselves up and inform against other offenders, and have scored remarkable achievements. By mid May, 89 offenders have given themselves up and informers have provided 1,071 clues to various offenses which involve 447 people. So far, the political and judicial organs have cracked 176 cases according to these clues and ferreted out a batch of criminal bands, who have long remained undiscovered, and heinous criminal offenders. These organs have also honored the promised favorable policy for 55 offenders who have given themselves up and performed good deeds.



Starting from March this year, in view of the disturbing public security problems and increased number of atrocious criminal cases, the political and judicial organs in this region, under the leadership of party committees, unfolded the struggle to "deal heavy blows to criminals" in good time and dealt severe punishment to a batch of criminal offenders who had seriously jeopardized public order. At the same time, various localities have been propagating the party's policy of "combining punishment with leniency" through newspapers, broadcasts, window displays, and open trials, and announcing lenient decisions as promised by the policy at timely public meetings. They urge offenders to give themselves up and turn other offenders in, and have seized some very dangerous criminals who have long remained undiscovered. Aided by the clues from offender-informers, the public security in Shizuishan City ferreted out a band of six robbers and rapists; the public security in Shitanjing District promptly cracked dozens of long-pending and hidden cases of burglary, rape, and robbery. The latter also cracked a case of illegal gun-making and a case of trafficking in women, and seized a defrauder who had obtained 250,000 yuan in cash by deception. Zhang Baode [1728 0202 1795], a recidivist and chief culprit in a murder case, after observing the trial in the intermediate people's court of Yinnan Prefecture for murderer He Zhanlin [0149 0594 2651], who had given himself up on his own initiative after committing the crime, surrendered himself to public security and assisted the latter in seizing Wang Wu [3769 2976], the accomplice. Zhang Baode was leniently treated by the court and sentenced to death with a reprieve while Wang Wu was severely punished and received a death penalty.

On 2 June, the regional higher people's court reiterated at a meeting that political and judicial organs will, according to law, mete out heavy punishment to heinous criminal offenders who have seriously jeopardized public order and refused to turn themselves in; those who shield and harbor criminal offenders, or harbor or dispose of the goods they have stolen; and those who retaliate against informers. Those who can recover their bearings, give themselves up on their own initiative, and perform meritorious services to atone for their crimes, no matter what crimes they have committed and when or under what circumstances they have committed them, will be treated leniently by the law.

#### **Report on Gansu's Fight on Drugs, Criminals**

HK2906032290 Beijing RENMIN GONGAN BAO  
in Chinese 15 Jun 90 p 1

[Report by Zhang Xiaomei (1728 1420 1188): "Gansu Sternly Cracks Down on Criminal Activities, Especially Drug Trafficking"]

[Text] Since May, Gansu Province has concentrated on the people's battle against "drugs." In this battle, public security organs in various localities have detected 400

cases of drug production and trafficking; and 540 drug producers and traffickers have been arrested.

At the Symposium on Gansu Province's Political and Legal Work, which ended on 31 May, Wang Jintang, member of the Standing Committee of the Gansu Provincial CPC Committee, vice provincial governor, and director of the Provincial Public Security Department, said: "Drug crimes and other related illegal profit-making cases are continually on the increase." This is a prominent problem affecting public order in Gansu. Therefore, Gansu should focus on the banning of drugs in its "rigorous battle" against crime, and should concentrate on the investigation and handling of crimes committed by gangs. Major leaders of party committees and governments at various levels should take the lead themselves, and various political and legal departments should coordinate action. Moreover, we must also have the full cooperation of such departments as the workers' unions, the communist youth leagues, and women's associations under the party organization, to vigorously crack down on some serious, dangerous criminal gangs; and to resolutely check the growth of serious crimes and the spread of drugs.

#### **Qinghai Organs Hold Meeting on Fighting Crime**

HK2806141590 Xining Qinghai Provincial Service  
in Mandarin 2230 GMT 26 Jun 90

[Text] The provincial committee of political science and law held a telephone meeting yesterday afternoon to assign tasks to deal telling blows at serious criminal activities in the province.

Under the leadership of the party committees and governments at all levels, the public security organs at all levels in the province have achieved initial success in the operation against serious criminal offenses which was launched early this month—a number of criminal gangs have been smashed, a number of serious criminal offenders have been caught, and the might of the proletarian dictatorship has been displayed.

In order to carry out in depth the operation against serious criminal offenses, (Tang Zhengren), member of the provincial party committee standing committee and secretary of the provincial committee of political science and law, during the telephone meeting urged leading comrades at all levels to understand the necessity and importance of this struggle in view of stabilizing the whole situation, implementing the spirit of the Sixth Plenary Session of the 13th CPC Central Committee, and strengthening the party's ties with the masses. He demanded that leading comrades supervise and coordinate the joint operation by various departments and thus launch a mighty wave to bring the initiative of all the party and the masses into full play under the party committee's leadership. They should make use of various channels to mobilize the masses to take part in the operation and should organize the masses to fight criminal elements.

Public security, procuratorial, and judicial departments at all levels must follow the principle of punishing criminals sternly, promptly, and according to the law when cracking down on criminal offenders. They must ensure that criminals are promptly arrested, prosecuted, tried, and sentenced. It is necessary to uphold the principle of leniency to those who confess their crimes and severity to those who refuse to, as well as the policy of integration of punishment and leniency. Serious criminal offenders must be sternly punished according to the law and no mercy should be given to them. Public security departments at all levels must also do a meticulous job in thoroughly investigating cases of criminal offenses.

Talking about cracking down on criminal offenses and straightening out social disorder, (Tang Zhengren) pointed out: We will not possibly thoroughly solve the problem by launching only one or two rounds of operation to fight crimes. While vigorously launching the operation against serious criminal offenses, local authorities must take measures in light of the new circumstances and new problems arising from the current operation, set great store in prevention of crimes and in the implementation of all other measures to preserve public order, consolidate and further develop the initial success of the operation against serious criminal offenses, and strive to win the complete victory of this struggle.

### Industrialists, Businessmen View Economic Development

90CE0099A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 12,  
26 Mar 90 p 34

[Article by Chang I (4545 1837): "Taiwan Industrialists, Businessmen View Taiwan's Economy"]

[Text] In the late 1970's, the most prominent achievement of Taiwan's economy was its joining the ranks of Asia's "Four Little Dragons." By the later period of the 1980's, due to an excessive accumulation of foreign exchange, the supply of Taiwan dollars increased at a great rate and the investment environment worsened, and many difficult problems cropped up in the Taiwan economy. As the 1990's arrive, what are the views of industrialists concerning the future of Taiwan's economy?

#### The Years of Anxiety

We should note that for Taiwan's industrialists, the 1990's are years of anxiety. Survey results from some Taiwan magazines and newspapers show that while a part of the industrial community still has confidence in economic development, and a good attitude towards investment, still the majority often have concerns, and are not optimistic about the future.

T'IENT HSIA Magazine conducted a mail survey of the people in charge at 1,000 large-scale manufacturing firms, and 300 large service enterprises. The results showed that 63.2 percent of these held a favorable view of Taiwan's economic future, were fairly confident in development of the economy and think that the economy can still grow; but on the other hand, it is political and social problems which are their greatest secret worry.

Li Ch'engchia [2621 2052 1367], a young Taiwan entrepreneur and board chairman of the Taiwan Medium and Small Enterprise Association, observed in the magazine survey's discussion that, in the light of the major trend of Taiwan's conditions, there will be a climb to a still greater pinnacle starting in the early 1990's. He firmly believes that the goal of a seven percent annual economic growth rate is attainable.

But there were two items in the survey which were not so optimistic:

One is the survey and forecast of the Taiwan Economic Research Institute concerning the prosperity of Taiwan's various industries for the first quarter, which listed many industries as "prosperity setback," or "prosperity continuing to fall." These included such industries as food products, textiles, dyeing and renovating, ready-made clothes, wood, plastic products, ferrous metal products, machinery, electric wire and cable, electrical appliances and electronics. Only rubber, nonferrous metal and mineral products, concrete and transportation implements were "prosperity considered rising."

Another was the "1990 Survey of Entrepreneurs' Attitudes Toward Investment," carried out by the KUNG SHANG SHIH PAO. The survey's results showed that of 500 large import-export firms surveyed, 10.4 percent of the entrepreneurs expressed an "extremely pessimistic" outlook concerning the prospects for the coming year, while 41.7 percent were "pessimistic," and only 12.5 percent were "optimistic." As for the quantity of investment funds, 29.1 percent of the entrepreneurs believed that this year's funds would be comparable to last year's, 20.8 percent felt there would be a small increase, while exactly 18.8 percent each believed there would be a large increase or a major decrease.

Obviously, Taiwan's industrialists are by no means uniform in their views of Taiwan's economic prospects, and could be said to vary greatly. However, they were as one in assessing the factors behind their discouragement and falling confidence in investment: these are still such problems as instability of the authorities, a very bad climate for investment, poor public order, and an underground economy run wild.

#### Bright Prospects for High Technology Industry

For several years now, rising real estate prices, widespread speculation, a serious shortage of labor and tense labor relations have made it difficult for some labor-intensive industries to survive. However, such high-tech industries as electronics, photo-electricity, telecommunications, computers and computer peripherals are still profitable, and can continue to develop. The profitable market for these holds a mighty attraction for investors.

Taiwan's communications industry began at the outset of the 1980's. Because there was a massive increase in the demand for the IBM [XIANG RONG] computer, including purchase of some large plants overseas, with the result that by the end of 1980's the scale of the industry's business had broken through the \$5 billion mark. "The Capital Planning Society" carried out some long-range estimates which indicate that with Taiwan's industrial base, the industry should maintain stable growth to maturity in the future.

In the past several days, the managing office of the Hsinchu Science and Industry Park approved four or five companies opening for business, and there are now about 10 companies which have applied for permission to set up plants there.

In addition to the favorable prospects for high-tech industries, there are some other factors attracting investors. According to Ts'ao Tienchang [2580 0368 4545], General Manager of the Hsinchu Science and Industry Park's Trade Council, the companies established within the park received guidance in a variety of favorable measures and ways, with a resulting low rate of failure. At the same time, as for these high-tech products, operational personnel's needs and conditions are better than at other plants, with excellent pay and conditions. Therefore, labor-management relations can still be considered harmonious; moreover, more than 95 percent of the

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products are manufactured for export and sell very well. In view of the excellent conditions described above, it is understandable that there are investors rejecting the labor-intensive industries for the high-tech industries.

### The Outflow of Capital Continues To Worsen

At present there is a problem with capital flowing out from Taiwan. This is chiefly due to three reasons: investment overseas in mutual funds; immigrant investment; and investment overseas in setting up plants. This financial drain will soon become very serious. Overseas investment funds are daily converging into a sum of a \$1 to \$2 million. In the first two months of this year, the Taiwan Overseas Investment Bank paid out more than \$328 million in foreign exchange to its customers. According to the usual past practice, the amount of exported commercial exchange sold during the first two months of each year was more than the amount of imported exchange purchased by investors. In this year's abnormal situation, it is obvious that the outflow of funds is an intensifying trend. People in the industry forecast that this outwards shift of funds will become even more severe in the second half of the year, and could possibly smash through the \$15 billion barrier, a 40 percent increase over last year.

Taiwan authorities are uncertain as to how to stop the pace of more and more investors' fund outflow, through dispersing the risks of enterprise investment. The

CHINGCHI JIHBAO of Taiwan has noted that, overseas investment by large enterprises has become the established practice, and is becoming an unstoppable trend. In a discussion of the reasons for the outflow of funds, a group of entrepreneurs expressed their concern that enterprises in Taiwan have no means of growing, because of such factors as restricting movements, the labor movement, serious security problems and the difficulties obtaining land for industrial use. These strike heavy blows at the desire of firms to invest in Taiwan.

The most recent survey taken among Taiwan's real estate community indicates that about 80 percent of them already have plans underway involving fund outflow. Ch'en Funan [7115 4395 3948], chairman of the board of the House of Ch'iao Fu [0294 4395], also said that in recent months there have been two to three times as many people discussing emigration than before.

Because of the rising tide of interest in emigration, there is, naturally, decreasing investment in Taiwan. One survey showed that 64 percent of real estate businesses had suspended their present investment plans. Obviously, the real estate market would be the first to feel the blow. Hsu Shengfa [6079 0524 4099], Director of Taiwan's Industrial Affairs Office has stated that this abnormal industrial outflow can only create a vicious circle, worsening Taiwan's overall economic environment.

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